Essays on the Political Economy of Distributive Politics

by

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A dissertation submitted in partial fulfillment
of the requirements for the degree of
Doctor of Philosophy
(Political Science)
in The University of Michigan
2019

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For Niki and Mari

with my deepest love

ACKNOWLEDGEMENTS

During my years at the University of Michigan, I have had the privilege of being mentored by remarkable scholars whose intellectual insight, rigorous guidance, and consistent support helped transform the PhD challenge into the most rewarding of journeys. I thank my co-chairs, Allen Hicken and Brian Min, for their generous willingness to share with me their intellectual wealth, valuable time, and most importantly their genuine friendship and sense of humor in moments most needed. I also extend a profound thank you to Anna Grzymala-Busse, whose sharp insight and concise advice over many years of mentorship has been tremendously beneficial to my ability to identify and structure my research interests. I am also incredibly thankful to Scott Page whose valuable, thought-provoking perspectives have contributed focus and clarity to the research presented here.

My work has been further shaped during exchanges with a number of scholars at different stages of the graduate program. I am grateful to Robert Frazese, Nahomi Ichino, Noah Nathan, Pauline Jones, Rocio Titiunik, and Mark Tessler for providing valuable feedback on different parts of this project. I am particularly indebted to Ronald F. Inglehart and Robert Mickey for their strategic advice and valuable friendship over the last few years. I also thank Bill Clark, Jenna Bednar, Mika LaVaque-Manty, Vincent Hutchings, Nicholas Valentino, Mark Dincecco, Ken Kollman, and Genevieve Zubrzycki for their influential imprints on my professional development. I am also grateful to my graduate school friends who have contributed to this project by way of many spirited discussions over numerous

cups of coffee: among them, Christina Kinane, Neveser Koker, Priyamvada Trivedi, Alon Yakter, Joe Ornstein and so many more. I am also thankful to Samantha Eyler-Driscoll for her encouragement and sharp critique and to my talented co-author Merih Angin who brings a high dose of style and high-spiritedness to our joint works. My most enthusiastic appreciation is reserved for my friend and brilliant co-author, Adrian J. Shin, whose steadfast friendship and trusty advice over the years have been of tremendous value, both personally and professionally.

This project was made possible via the generous financial support of the Department of Political Science, International Institute, and Rackham School of Graduate Studies at the University of Michigan. I acknowledge their support and thank them accordingly.

On a more personal note, this project would not have been possible without the influence, love, and ever-present support of my family and loved ones. To them, I owe my greatest inspiration and deepest gratitude. I thank my parents for giving me the inspiration to believe that I could change my reality, even when my reality was locked in by the iron walls of communist Albania. I am thankful to my mother for teaching me a solid work ethic and the drive to pursue my highest ground. I am particularly grateful to my father whose passion for reading and learning has taught me my most cherished life habit. And I am very thankful to my brother, whose unwavering love, loyalty, and support hides conspicuously behind a continuous ridicule of "Are you still in school?" line of questioning.

My most profound thank you goes to my husband, Ari, who has made this project and so many others possible and memorable. I will be forever grateful for his unrelenting support, unconditional love, and for his enthusiasm in taking our boys to their swimming practice, piano lessons, and bike rides every time I needed to work a bit longer. I have been incredibly fortunate to have made my life's wisest decision while still in my teens. Thank you for always being there and thank you

for always showing me my way home.

Finally, to my two beautiful boys, Domenik and Mario: I cherish you beyond words and I am immensely proud of all that you are. Thank you for bringing such joy and purpose to my life! I dedicate this work to you with all of my love.

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ABSTRACT

Despite democratic theory's fundamental expectation that voters punishing corruption at the polls is a key mechanism whereby democracies secure accountability, voters in many countries fail to vote out corrupt parties consistently, even while expressing rising indignation at its pervasiveness. Instead, the pattern that emerges across transitioning as well as consolidated democracies is that while in some countries corrupt parties and representatives are effectively voted out of office, in others they are able to maintain voters' electoral support and even consolidate their hold on power. Why is this the case? What types of strategies, resources, and policies do corrupt governing parties employ to assuage voters' electoral wrath, counter electoral backlash, and optimize their political payoffs? And how do international actors and organizations respond to migration pressures that often arise as a consequence of the underperforming economies of corrupt states?

My dissertation examines the relationship between political corruption, electoral accountability, distributive politics, and the political economy of fiscal lending by international organizations in the age of migration. The research revolves around three major questions which I examine via a combination of qualitative and empirical methods: "What types of distributive strategies do corrupt political parties adopt to curtail voters' electoral wrath?", "Do fiscal funds allocated by the European Union to member states deliver an electoral advantage to corrupt incumbent parties?", and "Do migration pressures faced by the IMF's major shareholder states

affect the size and conditions attached to the loans granted by the IMF to migrant sending countries?"

My first chapter examines the types of strategies, resources, and policies that corrupt governing parties employ to deter electoral accountability. I develop a model of "corruption compensation" whereby, in a bid to preempt electoral backlash, corrupt incumbents strategically target higher shares of government resources to regions where corruption perceptions are higher and demands for political accountability are more likely to emerge. To systematically examine the theory I engage in a cross-time, within-country analysis of the highly corrupt, post-socialist state of Albania. Using an originally constructed, district-level data set, I employ a methodological approach that combines qualitative evidence with a multivariate empirical analysis and find support for my hypotheses.

The second chapter builds on these findings to examine additional sources of funds available to corrupt governing parties and the impact they have on their electoral advantage. Focusing on the EU's geopolitical space, this chapter takes into account the degree of executive corruption in EU member states to examine and confirm the novel theoretical expectation that higher fiscal allocations to corrupt recipient states deliver political latitude that incumbents utilize to advance their electoral outcomes and governing authority.

The third chapter assesses the migration dimension of the link between political corruption, accountability, and distributive politics. It focuses on the policy and fiscal measures taken by international organizations and migrant-hosting states in response to rising migration pressures from migrant-sending states. Drawing on novel data on all IMF programs from 1978 to 2013, this chapter examines and finds empirical support for the theoretical expectation that the IMF grants larger loans and less stringent loan conditions to migrant-sending states that pose greater migration pressures to the Fund's largest shareholder states.

Combined, this project contributes to a deeper understanding of the relationship between political corruption, distributive politics, electoral accountability, and the political economy of fiscal lending by international organizations, particularly the EU and the IMF. The findings presented here enhance our current understanding of impediments to robust democratic development and shed light on the forces that shape the decision-making processes of supranational organizations.

CHAPTER I

Introduction

"Mr. Prime Minister, Please respond [to our demands] by 4PM. We have a German seminar at 5PM."

—Student anti-corruption protesters

Tirana, Albania, December 11, 2018

At the time of this writing, thousands of Albanian students from all corners of the country have gathered in the streets of Albania's capital, Tirana, to protest against corruption, lack of government accountability, and minuscule education funding by the Albanian government. The peaceful protests are immensely powerful[1]. Taking place daily in front of the Education Ministry and the Albanian government's main building, the student rallies—estimated to be the country's largest to date—are reminiscent of the student protests of December 1990 that initiated the collapse of Albania's nearly five-decades-long communist regime.

While the spark that ignited the current protests was provoked by a recent policy proposal, the socioeconomic and political grievances shared by both generations profoundly connect today's students to their history-making predecessors from 28 years ago. The present protests arose due to a government decision to impose

[1]While currently peaceful, the protests are likely to escalate given their growing intensity.

an additional fee of approximately 5 Euros per credit for public university students' resit exams. The now-abolished obligatory fee imposed a burden of 30 to 45 Euros per exam on students whose extremely limited financial resources and grim employment opportunities in Albania's struggling economy made the cost of higher education prohibitively high.[2] The protests swiftly took on anti-corruption and anti-government tones as students identified Albania's long-standing corrupt political culture, ineffective judicial system, and unaccountable governance as hindrances to quality education, employment opportunities, and economic and life security—factors that leave Albanian youth and the overall citizenry with little choice but to turn to migration as the only tenable pathway to socioeconomic relief.

Thus, while announcing over megaphones the names of professors and public officials who have demanded bribes in exchange for positive evaluations and college admissions, the students point to dire economic conditions, the proliferation of corruption at all levels of the education and political system, a limited budget of only 3.1% of the national GDP allocated to education spending, and non-materialization of fiscal funds allocated by international donors to support Albania's education system[3] as the fundamental factors that prevent Albanian youth from thriving within the geographical borders of the Albanian state. To address these grievances, student protesters request that the government, currently headed by Albania's Socialist Party, lower tuition costs, allocate a higher proportion of the state budget to education expenditures, establish fiscal and political transparency, and ensure students' participatory role in the government's decision-making processes.

[2] According to Albania's Institute of Statistics, education spending, which constitutes the largest expense for the average Albanian family, has increased by 2.3%, while monthly incomes (of approximately 400 Euros per family) have declined by 3% between 2017 and 2018.

[3] Among other cases, student protesters and MPs representing the opposition party Socialist Movement for Integration (LSI) point to the non-materialization of a multimillion-Euro grant by the KfV Frankfurt am Main, allocated for purposes of rehabilitating and reconstructing Albania University's student dormitories. The project, which was expected to conclude by 2018, has yet to start despite the 2017 sum of 4.5 million Euros having been approved by the parliament for alleged progress on the project.

While taking place at two distinct times in Albania's history, the 1990 and 2018 Albanian student protests share a number of similarities that expand beyond the protests' scope, demographics, and familiar locations. They represent two decisive moments in Albania's history where the students' voices echo the concerns of the larger Albanian population. They represent the people's apprehensiveness that their governments share a history of being neither representative of the Albanian people nor accountable to them; that the country's socioeconomic conditions have consistently declined while political corruption and organized crime have rapidly proliferated; that foreign aid by international actors and institutions is channeled toward personal and political rather than policy and humanitarian purposes; and, importantly, that similar to the early 1990s when Albanian citizens "voted with their feet," migration continues to remain their most rational path toward educational attainment and economic security.

These student protests, similar to other anti-corruption protests that have taken place in recent years across several European states, including Bulgaria, Hungary, Romania, Slovakia, and others, call attention to several factors that are inherently and consequentially related to democratic developments and international relations. They bring into focus the salient association between political corruption, distributive politics, electoral accountability and the impact of international actors and organizations in influencing—via both fiscal resources and policy recommendations—not only the socioeconomic and political dynamics of individual states, but also the migration pressures that arise both within individual states and across members of the larger international community.

Several important questions arise when considering the ways in which these factors interact with one another to shape socioeconomic and democratic developments. Among them: What helps corrupt political parties survive attempts to impose electoral accountability? What types of resources do they utilize to optimize

their electoral payoffs? And how do international actors and organizations respond to the migration pressures born as a consequence of underperforming economies, often due to political extraction by governing elites?

My dissertation contributes to our understanding of these dynamics by examining—both theoretically and empirically—the link between political corruption, electoral accountability, distributive politics, and the political economy of fiscal lending by international organizations, particularly the EU and IMF, in the age of migration. The analysis is conducted at two theoretical and empirical strata: state and international organizations. At the state level, I systematically examine the interaction of these factors by analyzing the ways, extent, and conditions under which incumbent political parties (mis)allocate domestic fiscal resources and development funds granted by international organizations to strategically form distributive policies that compromise electoral accountability, reshape voter-party alignments and bolster incumbents' political power at the cost of democratic robustness. At the international organizations level, I examine how allocation of fiscal funds by international organizations affects the domestic politics of recipient states and addresses migration pressures faced by the organizations' major shareholders.

Specifically, my work examines three major research questions, all related to distributive politics and fiscal resources as mechanisms for impacting voter behavior, electoral outcomes, and migration pressures: "What types of distributive strategies do corrupt political parties adopt to curtail voters' electoral wrath?", "Do fiscal funds allocated by the European Union to member states deliver an electoral advantage to corrupt incumbent parties?", and "Do migration pressures faced by the IMF's major shareholder states affect the size and conditions attached to the loans granted by the IMF to migrant sending countries?"

My findings suggest that these questions are interconnected in important theoretical ways and have long-term implications for policy outcomes and demo-

cratic efficacy. In the following pages, I show that distributive politics and fiscal resources—whether domestic or external—are strategically utilized by individual states and international organizations as key instruments for reconfiguring patterns of electoral accountability and promoting the personal and political interests of allocating parties and entities. At the state level, I find that in a context of political corruption, governing parties are particularly effective in utilizing state resources and external funds granted by international entities to mediate potential electoral punishment and gain a competitive, governing advantage over opposition forces. At the international organizations' strata, I find that distributive policies and fiscal allocations are used as bargaining chips for promoting the socioeconomic and political interests of international organizations and their major shareholder states. However, their degree of efficacy in reaching the desired political outcomes varies across organizations and over time. In this vein, I find that the IMF effectively addresses migration pressures faced by its major shareholder states by granting larger loans with fewer conditions to migrant-sending countries. In the case of the EU, the political payoffs of distributive politics are more complex, as greater shares of allocations to EU member states demonstrate variation across time and space in promoting EU economic objectives and democratic values across the EU's political space.

My research arrives at these findings by examining the three questions presented above via an eclectic methodological approach. First, I rely on interviews and qualitative evidence gathered during my fieldwork in the region to derive the study's main theoretical expectations. Second, I assemble an original data set which I use to test my theoretical expectations in a within-country analysis. Third, I rely on additional, novel data sets to engage in cross-country and cross-time analysis that places the study's main theoretical conjectures under further empirical probing. My findings contribute to two diverse bodies of literature: democratization and the

political economy of fiscal lending. In regards to the democratization literature, by examining the combined effect of political corruption and distributive politics on patterns of electoral accountability, my work expands the literature's current focus on the origins, spread, and effects of political corruption, to systematically test: (1) politicians' response to past and looming electoral punishment; and (2) the ways in which this response affects patterns of democratic consolidation in transitioning and developing democracies. In regards to the political economy of fiscal lending literature: by examining how IMF tailors loan size and conditions to mediate the migration pressures faced by its major shareholders, my coauthors and I contribute a novel, migration dimension to the nature of forces that drive variation in fiscal lending by international organizations. Thus, our findings help explain variation in IMF loan terms and conditions among otherwise similar recipient states.

In the second chapter, I examine a puzzling and contradictory pattern that has emerged in recent years across the transitioning democracies of Eastern and Southeastern Europe: as political graft and institutional misconduct have increasingly tainted the region's fragile political and institutional structures and have provoked voters' rising indignation and numerous anti-corruption protests in countries like Albania, Bulgaria, Romania, and others, electoral support for parties and elites engaged in abuse of power manages to persist across the region. These developments contradict the expectations of the retrospective voting model (RVM), which postulates that voters punishing corruption at the polls is a key mechanism whereby democracies secure electoral accountability. Against this democratically consequential backdrop, this chapter asks: What strategies, resources and policies do political parties employ to assuage voters electoral wrath and counter electoral backlash?

To examine the conditions that underlie the spatial and temporal variation in patterns of electoral backlash against political corruption, I assess the link between voters' perceptions of corruption and distributive policies that parties adopt to

effectively preempt voters' demand for electoral accountability in transitioning, post-Communist European democracies. I develop a model of "corruption compensation" whereby, in a bid to preempt electoral backlash, corrupt incumbents strategically target higher shares of government resources to regions where corruption perceptions are higher and voters likelier to have heightened demand for political accountability. To systematically test the theory, I employ a methodological approach that combines a multivariate empirical analysis with qualitative evidence from the highly corrupt, transitioning democracy of Albania and find support for my hypotheses.

In the third chapter, I build on the findings of the within-country analysis to examine additional sources of funds available to corrupt incumbent parties and the impact they have on corrupt governing parties' electoral advantage. Specifically, the research question examined in the second chapter is: Do fiscal funds allocated by the European Union (EU) to member states deliver an electoral advantage to corrupt incumbent parties? Current works assessing the link between EU transfers and political corruption focus primarily on the *impact* of EU funds on recipient states' patterns of political corruption and do not engage with the question of how EU funds *interact* with political corruption to shape party dynamics in recipient states. Despite public and policy makers' concerns about the linkage between rising political corruption and inefficient use of EU transfers by member states' authorities, the impact of EU funds on political corruption has received minimal empirical attention. This is even more so the case in regards to the question of how allocations to corrupt EU states affect domestic party politics and the political longevity of recipient states' governing parties.

I fill this theoretical and empirical gap by taking into account the degree of executive corruption across recipient states to analyze the impact of EU fiscal allocations on domestic politics and governing parties' electoral outcomes. I propose a novel

theory whereby fiscal allocations to corrupt recipient states deliver political latitude that incumbents utilize to advance their electoral outcomes and governing authority. I argue that access and allocation authority over the EU's fiscal inflows enable corrupt governing parties to engage in a combination of distributive strategies aimed at maintaining the loyalty of their personalistic networks and appeasing electorally significant constituencies in ways that ultimately strengthen their hold on power. Examining data on EU fiscal allocations over the period of 2000-2015, I find that fiscal transfers to EU member states are correlated with higher electoral margins for incumbents in corrupt countries. I interpret this as suggestive of misallocation of EU transfers by corrupt parties to buffer their political latitude over the opposition.

The fourth chapter addresses the migration dimension of the link between political corruption, accountability, and distributive politics. It focuses on the policy and fiscal measures taken by IOs and migrant-hosting states in response to rising migration pressures from migrant-sending states. The specific question addressed in this co-authored[4] chapter is, "Do migration pressures faced by the IMF's major shareholder states affect the size and conditions attached to the loans granted by the IMF to migrant sending countries?" Existing models of international organizations focus on the strategic and special interests of major shareholders to explain why some countries can secure better deals from international organizations. Focusing on the International Monetary Fund, we argue that migration is an important consideration among the IMF's major shareholders.

Stringent loan conditions often exacerbate short-term economic distress in the recipient country, which in turn causes more people to migrate to countries where their co-ethnics reside. Therefore, major IMF shareholders that host a large number of nationals from the recipient country face a disproportionately high level of migration pressure when the IMF places demanding loan conditions on the recipient

[4]Co-authored with Merih Angin (Harvard University) and Adrian J. Shin (University of Colorado Boulder)

country. Since the citizens of major IMF shareholder countries tend to oppose immigration inflows, we argue policymakers from these countries will pressure the IMF to minimize short-term adjustment costs in the recipient country when they host a large number of the country's nationals. Analyzing all IMF programs from 1978 to 2013, we test our hypothesis that IMF recipients with larger diasporas in the major IMF shareholder countries tend to secure better deals from the IMF. Our findings confirm that when migration pressures on G5 countries are present, recipient countries receive larger loan disbursements and more lenient labor conditions.

The conclusion summarizes the study's main findings and examines the implications for the relationship between accountability, corruption, and distributive politics in an integrated world.

CHAPTER II

Killing with Kindness: Corruption and Accountability in Distributive Politics

2.1 Introduction & the Puzzle

In theory electoral democracy should root out corruption when voters hold corrupt politicians and parties to account for misdeeds by voting them out of office. Yet existing democracies worldwide—especially transitioning democracies—display considerable variation in patterns of electoral backlash against corrupt governing parties. This failure to vote out corrupt incumbents in turn allows them to consolidate power and retrench institutional mechanisms of accountability, stunting democratic consolidation or prompting authoritarian backsliding. Yet the question of which factors drive this variation in voters' demand for accountability remains the subject of much research. Recent anti-corruption protests in Hungary, Romania, Slovakia and other transitioning European societies signal citizens' rising indignation at political graft and the salience of this issue for the political and economic trajectories of post-Communist states. Eurobarometer data indicates that 80% of respondents in post-Communist states consider corruption to be a major problem facing their countries. In Romania, Czech Republic, Lithuania, Slovenia and Slovakia, nearly 90% of surveyed respondents identified corruption as a major problem

facing their country[1]. Bulgaria is the only country showing a downward trend in the share of people considering corruption a national challenge since 2009[2]. Yet the political survival and, in certain cases, thriving careers of corrupt politicians across the region point to a contradictory trend in the politics of Europe's transitioning states: despite the proliferation of political graft and voters' fury at its occurrence, electoral backlash against culpable parties and representatives remains an exception[3], rather than a norm across the region[4]. In the case of the post-Socialist Federation of Bosnia and Herzegovina, the president and member of the Croatian Democratic Union of Bosnia and Herzegovina (HDZ BiH) Party, Zviko Budimir, remained in office despite his 2013 arrest for corruption and bribery[5]. Budimir's arrest had no impact on the parliamentary vote share obtained by the HDZ BiH party during the 2014 elections. Similarly, Croatian prime minister Ivo Sanader remained in office from 2003 to 2009 despite his involvement in siphoning off funds from state-run companies, which in 2014 resulted in a nine-year conviction. In Albania, former prime minister Ilir Meta was appointed president in July 2017 despite evidence and common public awareness of his recurring engagement in political graft[6]. Thus, across Europe's transitioning states, as political corruption continues to taint the region's fragile political and institutional infrastructures, electoral accountability

[1]Eurobarometer Data

[2]Despite this decrease, corruption perceptions remain relatively high in the country.

[3]An analysis of demand for electoral accountability does not imply that backlash is an unlikely phenomenon. In the case of Italy, voters' punishment in response to the 1990s Tangentopoli investigation brought about the downfall of the existing party system and ended the "First Republic". Similarly, Mexican voters' electoral support for Vicente Fox as the country's new president during the county's 2000 national elections signaled their punishment of the long-reigning PRI (Partido Revolucionario Institucional) party. Yet, these cases are not uniformly replicated(Treisman 2000).

[4]While political corruption is present in both developed and developing democracies, previous research suggests that developing democracies and authoritarian regimes are comparatively more corrupt than developed democracies(Treisman 2000).

[5]Budimir accepted bribes in exchange for granting 162 pardons to, among others, individuals accused of murder.

[6]This pattern is visible in non-European transitioning democracies as well. In the case of Brazil, former president Lula da Silva was a leading presidential contender in the country's 2018 elections, despite longstanding corruption allegations against him which in July 2017 had resulted in a ten-year conviction.

for politicians and parties engaged in abuse of power remains variable. This is the case despite the presence of democratic accountability mechanisms.

Within this context, this study asks: Why do voters vary in their demand for accountability and under which conditions does corruption prove to be of greater or lesser electoral salience? I theoretically and empirically assess this puzzle by analyzing the effect of parties' distributive policies on voters' electoral response to political graft. While previous studies on the topic have focused on country- and individual-level factors such as the state of the economy, information asymmetries or partisanship to explain variation in electoral punishment of corrupt parties, I develop a theoretical model of "corruption compensation" that identifies strategic allocation of resources by governing parties as a proactive and retroactive reimbursement mechanism for mediating electoral backlash. I posit that a critical component of parties' allocating calculus is the electorate's perceptions of the corrupt practices of governing parties. I argue that variation in spatial allocation of benefits according to regional voters' corruption perceptions shapes variations in patterns of electoral tolerance of political graft. This theory of corruption compensation' helps identify the conditions under which electoral punishment of political graft is more likely to emerge and contributes new insight into the puzzle of why there are non-punishing voters in high-corruption states.

With its integration of parties' allocating strategies with voters' corruption perceptions, this theoretical account extends work in both the distributive politics and clientelist literatures focusing on resource allocation as a method of procuring political support. However, by treating strategic allocation of resources as a defensive shield—a mechanism to buy off voter demand for accountability—a theory of corruption compensation expands the scope of analysis beyond an examination of how parties use resource allocation to enlist electoral support, to evaluate how and when corrupt parties use compensation strategies to *maintain* said support and

deter potential defectors.

Advancing our understanding of this puzzle is important on several counts. Electoral accountability constitutes a central mechanism of democratic robustness (Barro 1973; Ferejohn 1986): when voters fail to punish malfeasant representatives, the latter's incentives to curb their corrupt practices decline even further (Acemoglu et al. 2003). This has important implications for long-term economic development and ultimately jeopardizes democratic consolidation by depleting valuable resources, undermining policy outcomes and reducing citizen's trust in democratic institutions (Mauro 1997; Lauderdale 2010; Anderson and Tverdova 2003). Thus identifying the factors that drive voters' electoral sensitivity to corruption provides insight into the democratic prospects and performance of transitioning states. In light of its significance, theoretical and empirical works on the topic have explored the origins, spread, causes and effects of corruption in Europe's transitioning states[7]. Despite substantial advancement in this regard, there is still limited understanding of the effects of corruption on political behavior[8], particularly in regards to the question of why some voters tolerate corruption while others do not. I contribute to this conversation by exploring 1) the strategic role of parties' distributive policies in shaping political behavior and 2) corrupt politicians' response to credible threats of electoral backlash—a question that as noted by (De Vries and Solaz 2017) has currently received "scant empirical attention" (pp. 397).

To dissect and test the effect of corruption compensation strategies on voters' response to political graft, I focus my present analysis on post-socialist Albania one of Europe's struggling new democracies and the region's third most corrupt state. This within-country analysis allows me the advantage of constraining state-level variation (in, e.g., macroeconomic performance or political culture) while

[7]See among others, (Kneen 2000; Philp 2002; Miller et al. 1997; Mishler and Rose 2005)

[8]Some exceptions include works on the effects of corruption on political participation (Kostadinova 2012)

engaging in a detailed qualitative and empirical analysis of the effect of party-level distributive policies on electoral outcomes. The analysis covers the period between 2005 and 2010. Beyond the Albanian case, I construct a general theory of variation in demand for accountability as a contributor to electoral volatility that applies to any transitioning and developing state.

2.2 What We Know

Political corruption, often understood as a form of particularistic exchange between patrons and clients, is a phenomenon that is neither exclusive to a particular type of political regime nor fixed across time and space. It has characterized the domestic political contexts of classic and contemporary societies and has proven flexible in its ability to adapt to shifting political, economic and cultural dynamics of its environment (Chang et al. 2010; Hicken 2011). Theoretical and empirical works find that corruption disrupts foreign direct investment, hinders international trade, inversely affects income equality (Habib and Zurawicki 2001; Wei 2000; Hines Jr 1995; Gupta et al. 2004) and challenges economic growth by channeling scarce resources toward private gains (Hicken 2011; Mauro 1997; Méon and Sekkat 2005). In the realm of institutions and democratic governance, corruption hinders collective action, impairs citizens' ability to hold their governments accountable and undermines trust in democratic institutions developments that impede the maturing of a democratic political culture and jeopardize democratic consolidation by provoking support for alternative methods of governance (Mishler and Rose 2001; Morris 1991; Rose et al. 1998).

Its damaging powers, however, do not go unchecked. The underlying expectation of the retrospective voting model (RVM) is that voters sanction corrupt or under-performing politicians when they have the opportunity and institutional means to do so (Key et al. 1966; Fearon 1999). Electoral rules, checks and balances

and the rule of law, robust opposition and clear demarcation of responsibilities have the power to effectively curtail political corruption (Brown 2006; Persson et al. 2003; Kunicova and Rose-Ackerman 2005; Carey and Shugart 1995; Golden and Mahdavi 2015; Easterly and Levine 1997; Grzymala-Busse 2007; Tavits 2007). Nonetheless, anti-corruption measures have had limited impact on constraining political graft in states where voters demonstrate lower demand for accountability (Treisman 2000).

Several empirical works find that voters do punish political corruption when it leads to low economic performance (Ferraz and Finan 2008; Krause and Méndez 2009; Winters and Weitz-Shapiro 2013; Klašnja 2016). While others find that corruption allegations also have a negative affect on incumbents' reelection rates, such effects are disproportionately small relative to the gravity of the allegations (Bågenholm 2010; Chang et al. 2010; Welch and Hibbing 1997). These works focus primarily on allegations versus specific cases of political corruption and share with other works in this group a general confinement in their ability to explain the electoral survival of parties and politicians with a history of engaging in corrupt and non-democratic practices.

At the other end of the spectrum, studies find that the effect of corruption on electoral outcomes is not detrimental to political survival and corrupt politicians are, in fact, often reelected (Chang et al. 2010; Vivyan et al. 2012; Fernández-Vázquez et al. 2016; Reed 1999; Rundquist et al. 1977). These findings point to country-level and individual factors as drivers of voters' tolerance of political corruption. The state of the economy (Klašnja and Tucker 2013; Zechmeister and Zizumbo-Colunga 2013), partisan alignment (Anduiza et al. 2013; Muñoz et al. 2016; Wagner et al. 2014), ethnic identities (Banerjee and Pande 2007), voters' educational background, viable candidate choices (Anduiza et al. 2013), information asymmetries (Chang et al. 2010; Botero et al. 2015) and political culture (Chang and Golden 2004; Barberá and Fernández-Vázquez 2012) may all reduce the intensity of voter demand for

accountability from incumbents[9]. However, while a few of these studies take into account the heterogeneity of voters in punishing corruption (Klasnja 2011), most share a homogeneous consideration of the electorate that does not capture variation in voters' corruption perceptions, especially voters situated in similar economic contexts, institutional structures, and group compositions. Moreover, the literature's current focus on economic and institutional factors and voters' individual attributes does not contemplate an effect of party strategies on reducing demand for accountability.

My theoretical account of corruption compensation attempts to reconcile these divergent results by assessing the effect of parties' distributive policies on variation in voters' response to political graft. Specifically, I use the term *corruption compensation* to describe the joint mechanism formed of two distinct hypothesized relationships for which I provide evidence below:

H1: Increased perceptions of corruption do indeed increase the probability of harm to incumbents' vote share. However,

H2: Incumbent parties' strategic allocation of higher shares of government resources to regions where corruption perceptions are higher reduces the level of harm to their vote share.

This approach offers a heterogeneous perspective of the electorate and contributes to our understanding of how politicians respond to the looming threat of accountability being imposed at the ballot box. If, as expected by the RVM, holding politicians accountable requires that voters[10] 1) observe a change in their societal welfare, 2) attribute responsibility accordingly, 3) adjust their voting decisions and 4) prompt a change in political behavior by incentivizing actors to adjust their actions, then a theory of corruption compensation offers insight into what factors affect the intensity of voters' accountability requirements (step 3) and to what extent, and to

[9]For an excellent overview of the literature see (De Vries and Solaz 2017)

[10]For a detailed review of this literature, see (Healy and Lenz 2014)

whose benefit, politicians adjust their actions (step 4). Hence, a theory of corruption compensation contributes a linkage to a key step in voters' electoral calculus when faced with corrupt incumbents.

2.3 Corruption Compensation: A Strategy for Reducing Electoral Sensitivity to Political Graft

In what follows, I provide definitions of this study's central concepts and introduce the theoretical basis for the hypothesized impact of parties' compensation strategies on voters' electoral response to political graft.

Political Corruption

This study conceptualizes *political corruption* as fraudulent political and economic conduct by elected party representatives while in office. In alignment with established understandings of the concept, fraudulent behavior includes, broadly, the exploitation of public resources for personal or party gains (Nye 1967; Rose-Ackerman 2008; Treisman 2007). However, to avoid subjective explanations of "exploitation" and subsequent biases resulting from its broad nature (Olken 2009; Rose-Ackerman 2008), I focus specifically on cases where party representatives engage in political misconduct that directly contradicts voters' expectations of the office they represent. This type of political misconduct includes violations of the "universality" norm[11] and expands beyond it by including cases where parties and representatives disregard citizens' interests despite contrary stipulations of the law.

Strategic Allocation of Resources

In alignment with current understandings of distributive politics as policies involving states' allocating decisions (Golden and Min 2013), I define *strategic*

[11] As defined by (Rothstein and Teorell 2008), the norm of *universality* refers to the process of decision-making during which government officials exclude consideration of any citizen-related factors not previously stipulated by the rule of law.

allocation of resources as funds and privileges that are institutionally granted from the central government to sub-regional governments. The decision-making authority regarding the amount of resources distributed to sub-national regions rests with the incumbent leadership. Once received, however, these resources are invested in ways deemed fit by the sub-regional units, with the underlying expectation that the chosen investment routes benefit the receiving region's economic and social development. While granted to regional governments rather than voters directly, strategic benefits provide long-term gains and are observable to voters via materialization of regional infrastructure, employment opportunities and other advances in their region's development. Therefore, strategic allocation of resources enables incumbent parties to engage in a process of credibility-redemption by compensating the electorate in ways that reduce voter demand for accountability for graft.

2.4 Theoretical Framework

2.4.1 Parties' Incentives to Engage in Corruption Compensation Strategies

At the foundation of my theoretical account rest two assumptions about the incentives of incumbent parties and political elites to influence voters' electoral decisions. First, both parties and political elites are invested in maintaining political power. Second, parties and elites are interested in accumulating rents and other perquisites. While these assumptions hold across political parties, they are more pronounced for corrupt incumbents, whose ability to maximize payoffs is largely contingent upon their ability to maintain political power.

Corrupt parties' capacity to achieve their desired outcomes is jeopardized when information on political misconduct is made available to voters by the media and trusted news sources (Chang et al. 2010; Botero et al. 2015; Ferraz and Finan

2008; Klašnja et al. 2016). This type of information triggers an update in voters' priors on party performance and initiates the process of blame attribution, which ultimately shapes voters' electoral accountability calculus. When this is the case, parties' electoral outcomes and ability to continue accumulating the desired rents are uncertain, particularly when parties cannot intimidate voters (Mares 2015) due to the presence of a robust opposition that provides voters with viable electoral alternatives (Grzymala-Busse 2008). Under these conditions, parties have credible and rational incentives to find strategies to assuage voters' wrath and forestall electoral backlash.

I argue that to reduce voters' demand for accountability, incumbents engage in corruption compensation — that is, strategic targeting of higher shares of government resources to regions where the electorate's corruption perceptions are high enough to merit compensation benefits yet manageable enough to be mitigated by them. Corruption compensation can grant parties electoral payoffs across ideological contexts. In ideologically or group-aligned regions where the loyalty foundation is preexistent and parties' propensity to boost their support among core supporters and potential defectors is likely (Cox and McCubbins 1986; Anduiza et al. 2013; Banerjee and Pande 2007), the strategy reaffirms parties' commitment to the electorate. It induces elasticity in voters' electoral demands by providing them with a resource trade-off for political misconduct.

A compensation strategy can also provide incumbents with relative benefits in both swing and non-aligned regions. In the former (Lindbeck and Weibull 1987; Dixit and Londregan 1996), the strategy can provide swing voters with tangible returns for their electoral support. Similarly, in ideologically non-aligned regions, particularly under proportional representation (PR) systems, where electoral rules permit allocation of seats according to the number of votes received, the compensation strategy "buys" the electoral support of certain proportions of

the electorate (Manzetti and Wilson 2007; Fernández-Vázquez et al. 2016; Stokes 2007; Grzymala-Busse 2008; Hicken 2011). The logic of corruption compensation and parties' incentives to engage in it is reflected in the following response by an Albanian MP to the question: "How do parties whose reputation has been tainted by corruption grapple, if at all, with voters' distaste of it?"[12]

> *Look, politics and corruption go hand in hand. This tale is as old as time. It's naive to think voters don't know or expect this. Corruption only becomes a problem when parties overdo it and voters learn about it from the media, newspapers or personal sources. Then, the parties' long-term success much as that of a skilled businessman depends on the ability to find the solution that best solves the problem and then invest its energy and resources into it. And like with most problems solved by money, the strategy to solving this particular one is to become the good guy, or the good party. And you become the good guy by way of giving. You give so they forgive. It's possible but morally challenging to chide someone who has been good to you and yours versus otherwise. This works for the voters, but it works for the politicians rather nicely too. The good lamb nurses from two mothers.*

Once strategic resource allocation has been identified as a viable measure for addressing corruption perceptions, incumbents face the challenge of identifying the regions where a compensating strategy returns higher electoral payoffs. This step is key to parties' optimal use of their limited resources as a mechanism for influencing voting outcomes. Incumbents gather information on where resources should be allocated that is, where demand for accountability is likely to be most elastic through political "brokers" (Stokes et al. 2013) and direct engagement with voters. This enables parties to assess, for instance, which stronghold regions must

[12]Interview conducted in July 2018. Tirana, Albania.

be compensated with higher shares of resources and which others will continue supporting the party regardless of the share they receive. I argue that in gauging the respective elasticities in demand for political accountability, parties take into account information on the corruption perceptions of regional electorates.

A member of the Albanian Parliament representing the Fieri region described parties' approach to identifying punishing voters in the following manner[13].

> *You address a problem by getting to the heart of it. When you have a party that is about to be penalized on grounds of corruption first thing to address is find out who is about to punish. Where are these people? Have they punished in the past? What does it take to be on their good side? You find out the answer to these moving parts and then plan aggressively and give accordingly. Everything can be purchased. Loyalty and intentions are no exception. You need a plan, though, and you need the resources – that is crucial.*

2.4.2 Voters' Electoral Response to Corruption Compensation

How do voters respond to parties' allocating strategies? I analyze the variation in their response as a function of the interactive effect of two particular influences: first, voters' perceptions of parties' engagement in political graft; and second, the amount of resources allocated to sub-national regions by governing parties. In regards to the first, when voters differ in their evaluation of party misconduct, their voting decisions vary accordingly by either punishing corrupt incumbents (Winters and Weitz-Shapiro 2013; Klašnja et al. 2016; Krause and Méndez 2009) or tolerating their engagement in political graft, especially when they ideologically align with the party (Vivyan et al. 2012; Chang et al. 2010; Muñoz et al. 2016). Hence

[13]Interview conducted in June 2018. Fier, Albania. Question:"How do you think parties whose reputation has been tainted by corruption address potential punishment by the electorate?"

I expect variation in voters' stated corruption perceptions[14] to lead to variation in their electoral response to political graft. In regards to the second dimension, when voters reside in regions with higher inflows of corruption compensation, they stand to gain more by mere virtue of regional growth, which in turn induces lower demand for accountability for political graft—an expectation that can be theoretically extrapolated from voters' tendency to reward economic performance (Klašnja and Tucker 2013; Zechmeister and Zizumbo-Colunga 2013).

I further expect distinct patterns of interaction between voters' corruption perceptions with regional gains from parties' compensating resources to lead to variation in voters' reaction to political misconduct. Table 2.1 presents the expected interactive effect of these dual influences on electoral outcomes.

Table 2.1: Theoretical Expectations of Variation in Electoral Punishment

	Corruption Perceptions	
	Low	**High**
Gains from Compensation **Low**	**Conditional Punishment**	**Punishment**
Resources **High**	**Status Quo/Support**	**Low Punishment/Support**

In regions where voters' corruption perceptions are too low to credibly threaten punishment, parties' incentive to engage in strategic allocation of resources is also

[14] A potential concern with the validity of this measure in operationalizing the explanatory variable is that a proportion of voters may underreport their true perceptions of corruption due to, for instance, partisan bias. However, the prevalence of underreporting is likely low given that a majority list political corruption to be the second most pressing issue facing the country next to unemployment B.2. In the region of Tirana, a largely and consistently Democratic region, these numbers reached 38.8% (INSTAT, 2010).

A further concern with reported corruption perceptions may be that they indicate voters' *knowledge* of widespread corruption but may not necessarily be interpreted to imply voters' *censure* of it. However, the widespread anti-corruption protests in response to the Gerdeci events and in the following years (2017 the most recent one) suggest that rising political corruption has indeed aroused voters' normative censure.

low. Under these conditions, voters exercise *conditional punishment* of governing parties based on individual- and macro-level factors like the state of the economy, partisanship etc. However, parties' incentives to compensate for political misconduct in regions where constituents' corruption perceptions are not high enough to warrant compensation shift when information provided by the media threatens to increase voters' awareness in ways that increase their demand for electoral accountability. Under these conditions, parties engage in strategic allocation of resources to counteract voters' demand for accountability with regional gains from party-provided compensation. Therefore, I expect low-corruption-perception voters from resource-favored regions to withhold electoral punishment of corrupt incumbents in ways that maintain the political status quo.

Thus my formal hypotheses are as follows.

H1 - Increases in the corruption perceptions of the electorate have a negative effect on party vote shares.

Moreover, I expect parties to attempt to appease voter dissatisfaction via allocation of higher shares of compensating resources among constituents of high-corruption perceptions regions. Hence,

H2 - Corruption Compensation Hypothesis: Increases in the amount of resources allocated to regions with high corruption perceptions reduce the negative effect of those perceptions on party vote shares.

To summarize, I expect distinct patterns of demand for electoral accountability for political graft to be driven by voters' perceptions of corruption and the interactive effect of strategic benefits allocated to sub-national regions with higher corruption perceptions among regional constituents.

2.5 Albania: A Motivating Case

In this section, I introduce the transitioning democracy of Albania as a motivating case for analyzing the effect of parties' corruption compensation on voters' demand for accountability for political graft. In what follows, I provide a brief overview of the country's transition and its electoral systems, followed by a precis of a case of graft and voters' electoral response to it. Methodology and findings follow.

2.5.1 Background and Electoral Systems

Albania, one of Europe's highly corrupt transitioning states, is a parliamentary republic whose democratization has been marked by frequent shifts in the country's electoral patterns and systems. The collapse of the Communist regime in 1991 and the country's transition to a parliamentary democracy marked the end of Albania's pure majority system and a move towards a mixed, proportional-majoritarian system. The latter lasted from 1992 to 2005 and was replaced prior to the country's 2009 parliamentary elections by a proportional representation system. The Albanian Parliament is comprised of 140 MPs, who are elected every four years through a party-list proportional representation system with closed candidate lists.

In coherence with the European Parliament's regulations for common classification of territorial units for statistics (NUTS), the regional structure of Albania is divided into three NUTS 2 statistical regions (North, Center, South) and twelve NUTS 3 administrative units. Combined, there are 36 main electoral municipalities consisting of 61 smaller municipalities comprised of 308 communes (Table 2.2).

Table 2.2: Statistical Regional Structure of Albania

NUTS 1	NUTS 2	NUTS 3	Municipalities	Communes
Republic of Albania	North	Diber	3	109
		Durres	2	
		Kukes	3	
		Lezhe	4	
		Shkoder	3	
	Center	Elbasan	4	67
		Tirane	2	
	South	Berat	3	132
		Fier	3	
		Gjirokaster	3	
		Korce	3	
		Vlore	3	

Note: Throughout this paper, I refer to NUTS 3 units as *electoral counties*.

2.5.2 A Case of Political Corruption: The Gerdeci Explosions

On March 15, 2008, the capital of Albania, Tirana, was shaken by an explosion originating from a munitions decommissioning facility designated to dismantle Communist-era military ordnance. The explosion, compared to the detonation of a nuclear bomb, occurred in the village of Gerdec, located some fifteen kilometers from Tirana. According to UNDAC[15], a total of 10,000 people were affected by the powerful blasts, and approximately 4,000 people had to be evacuated from the disaster area. Twenty-six people lost their lives, including women and children; one person was declared lost; and another 300 citizens were injured and flown to Italy, Switzerland and Greece for medical treatment. Aside from human costs, the explosions further damaged critical infrastructures: roads, water and power supply networks, public schools, buildings, health centers and destroyed nearly 3,000 local businesses, further exacerbating the crisis for the surviving inhabitants lacking the resources to abandon the area (UNDAC).

[15](United Nations Disaster Assessment & Coordination 2008)

While the Gerdeci explosions had devastating security and socioeconomic ramifications for the region's residents, they also presented critical political and electoral challenges for the incumbent Democratic Party (DP), whose leadership was implicated in the scandal. Cognizant of the country's upcoming 2009 parliamentary elections, the growing momentum of the opposing Socialist Party and Albania's impending NATO membership, the Democratic Party's leadership engaged in several damage-control strategies to impede the political repercussions of the scandal. Three hours after the explosions, government and Democratic Party representatives took to the media to claim non-involvement in the Gerdeci scandal. Despite Berisha's claims to the contrary, opposition forces led by the Socialist Party pointed to Berisha and his family's involvement in the sale of surplus weaponry and mismanagement of the disposal of obsolete weapons. They demanded his resignation on grounds of corruption and political misconduct (Kulish 2008). The oppositions' demands were underpinned by domestic and international media accounts pointing to the prime minister's involvement in the illegal sale of the weaponry. Media reports on the involvement of Berisha's family in the Gerdeci scandal were widespread across the country and gave imminent rise to voter protests[16]. Citizens and the victims' families demanded an investigation into the causes of the explosions and called for a change in government and legal accountability for Berisha and his collaborators.

2.5.3 Gerdeci: The Electoral Aftermath

Expectations of democratic accountability suggest that citizens' fury at the Gerdeci explosions should have led to electoral punishment of Berisha and the incumbent DP. Yet this was not the case in the electoral aftermath of the Gerdeci scandal. Despite reports by media and opposition forces aimed at generating public awareness of Berisha's involvement in the Gerdeci tragedy, Berisha and the DP-run

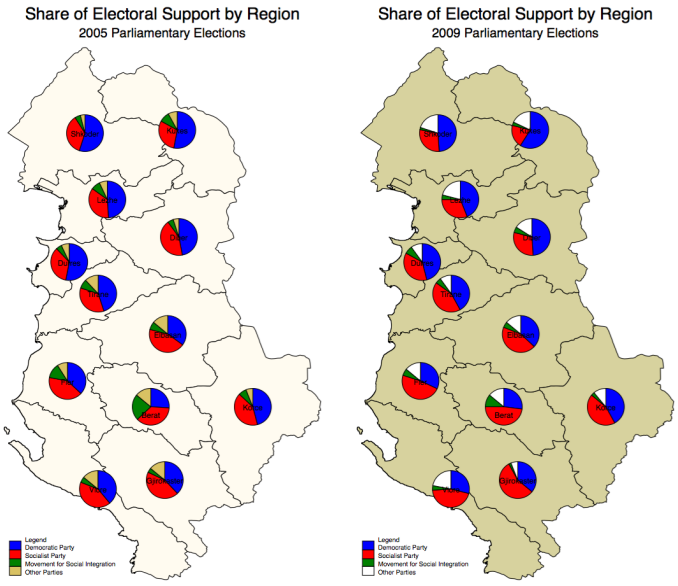
[16]Media and news reports maintained that the Gerdeci factory was under the management of Berisha's son, brother-in-law, and a number of additional family members.

coalition proceeded to claim electoral victory in the country's 2009 parliamentary elections. What was puzzling about this outcome was Berisha's and the DP's anticipation of that victory. Berisha's confidence in his party's ability to assuage voters' wrath was evident in his choice of electoral district where he ran as the head of his party's list. Berisha, who could have theoretically chosen to run in regions far removed from the scandal in order to curtail electoral backlash, chose to run in the region of Tirana, where the Gerdeci explosions had taken place only a few months prior. His calculated risk paid off as Berisha secured electoral victory and the DP matched the Socialist Party in winning fifteen parliamentary seats in the Tirana region. In other sub-national regions, distinct patterns of electoral punishment of Berisha's DP emerged. While in the counties of Vlore, Shkoder and Durres, the DP lost considerable portions of its vote share, in the counties of Fier and Korce its electoral losses were only modest with, respectively, a 5.7% and 3.01% decline in vote share. In the counties of Kukes, Diber and Berat, however, electoral punishment for DP did not materialize and the party's vote share grew by, respectively, 6.4%, 2.69% and .43% in comparison to the 2005 parliamentary elections.

Figures 2.1 and 2.2 capture distinct patterns of regional variation in electoral support for the DP during Albania's 2009 parliamentary elections. Figure 2.1 presents vote shares for Albania's main competing political parties Democratic Party, Socialist Party and the Movement for Social Integration (LSI) during the 2005 and 2009 parliamentary elections according to NUTS 3 statistical divisions. Figure 2.2 further dissects the DP's vote shares in the 2009 parliamentary elections according to the country's main 36 electoral counties.

When analyzing the DP's 2009 vote shares in accordance with voters' assessment of escalating political corruption between the 2005 and 2009 elections, a pattern that emerges is that in regions where electoral punishment for the DP was more

Figure 2.1: Party Vote Shares by Electoral Counties



Data Source: CEC Albania.
Note: The pie charts represent vote shares by statistical region for the main political parties during the 2005 & 2009 Parliamentary Elections.

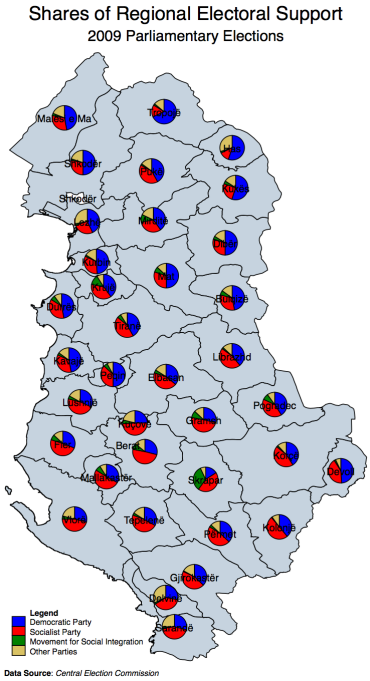
likely to emerge, losses in DP vote share were either modest or did not materialize. To illustrate, Figure 2.3 captures regional public perceptions of mounting political corruption during the period 2006-2010[17].

As shown, in the counties of Fier and Korce, where the proportion of respondents who believed corruption had escalated between the two elections grew by 50% and 46% respectively, losses in the DP's 2009 vote shares were only 5.7% and 3.01% relative to its 2005 vote shares. In the counties of Berat and Diber, on the other hand, a significant increase of 48% in the proportion of respondents who believed corruption had surged over the last three years did not result in electoral backlash and the DP's vote shares actually increased during the 2009 parliamentary elections by .43% and 2.69% respectively.

Figure 2.3 further addresses the point of voters' awareness of corruption as a

[17]Percentage of respondents is calculated by combining the proportions of survey participants who responded that they "Disagreed" and "Strongly Disagreed" with the statement: "There is less corruption today than three years ago".

Figure 2.2: Party Vote Shares by Main Municipalities, 2009

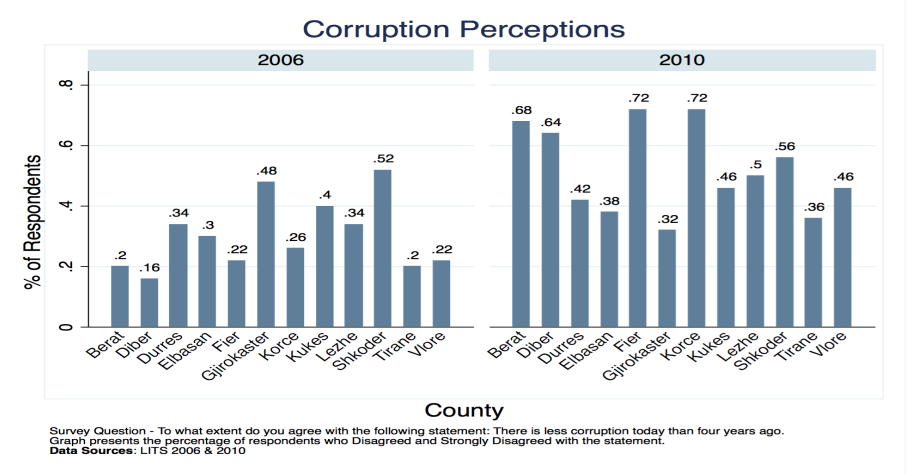


factor that impacts their imposition of electoral accountability (Chang et al. 2010; Botero et al. 2015). The increase in public perceptions of mounting political corruption across the country's twelve electoral counties signals the electorate's general awareness and disapproval of their governments' under-performance [18]. This awareness is further reflected in the electorate's rising distrust of government, parties and political institutions over the period 2006-2010. Figure 2.4 displays national levels of institutional distrust during the period of 2006 and 2010. The data suggest an overall increase in distrust across all presented political institutions. Distrust in political parties increased from 45% in 2006 to 53% in 2010, while distrust in government reached a high of 44% in 2010 relative to 31% in 2006 [19].

[18] When asked about the trajectory of corruption in the last three years prior to the 2010 survey (a period that coincides with the time of the Gerdeci scandal), approximately a third of Albanian voters believed that corruption had increased, while more than 40% considered it to have remained stable.

[19] Question: "To what extent do you trust the following institutions: The Presidency, the government/cabinet of ministers, regional government, local government, the parliament, courts, political parties, the police?" To capture total national levels of distrust in each institution, I combine the proportions of respondents who expressed "Some distrust" and "Complete distrust" of each institution.

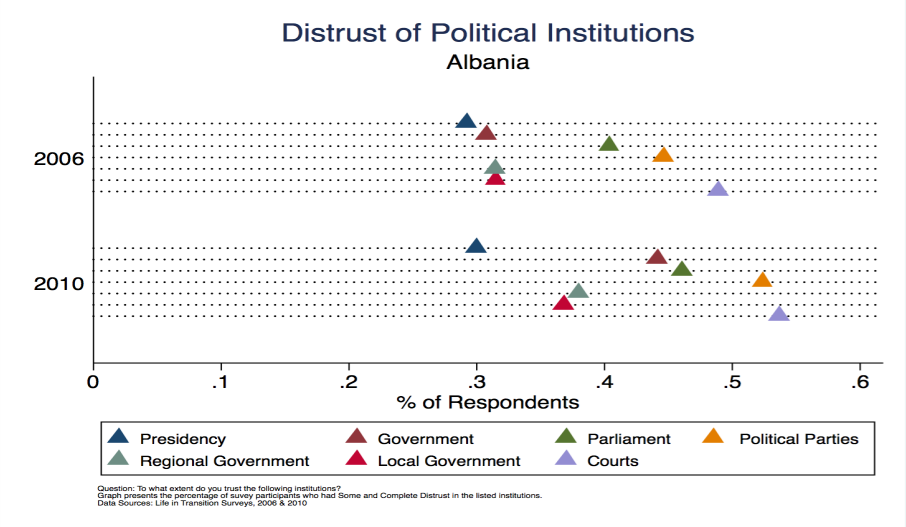
Figure 2.3: Corruption Perceptions by Electoral County, 2006 vs. 2010



Given voters' awareness of and distrust of political institutions due to political corruption, what drove the distinct patterns of electoral backlash against the DP in the wake of the Gerdeci events? In accordance with my theoretical expectation of parties' compensating strategies, I expect that the governing DP strategically allocated higher shares of government resources to sub-national regions where voters' high perceptions of corruption signaled a credible threat of electoral backlash. An empirical implication of this expectation is that regions with smaller proportions of citizens who think that corruption has increased should have received comparatively lower amounts of resources relative to their corruption-alert counterparts. Figure 2.5 lends empirical support to this expectation. The correlation plots indicate the presence of a positive relationship between unconditional transfers (UT) per capita distributed to regional municipalities by the party in government and the proportion of respondents who consider political graft to have increased over time. Alternatively, the inverse relationship between UT per capita and proportion of respondents who believe that corruption has decreased in recent years suggests that municipalities with lower proportions of corruption-wary voters receive fewer resources from the party in government [20]. I test the effects of this relationship on

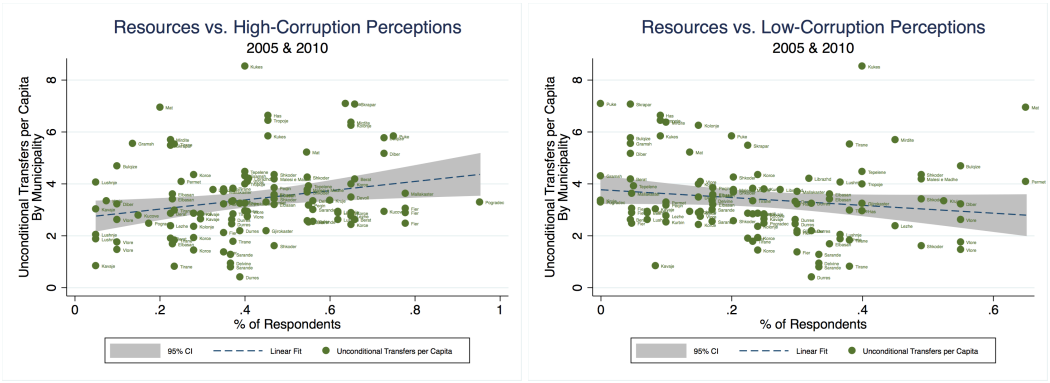
[20]Survey Question: "To what extent do you agree with the following statement: There is less

Figure 2.4: Distrust in Political Institutions (2006-2010)



voters' electoral decisions in the empirical section of the article.

Figure 2.5: Resources vs. Corruption Perceptions, 2005 & 2010 (by Municipality)



Data Sources: Albanian Ministry of Finance, LITS 2006, 2010

Finally, the corruption compensation hypothesis raises two information-related questions that call for theoretical validation. First, how aware are parties of the electorate's corruption sentiments? And, second, how aware is the electorate of regional benefits provided by the incumbent? Given parties' electoral incentives to constrain voter discontent, I expect parties to engage in strategies that, similar to

corruption today than four years ago." The Resources vs. High-Corruption Perceptions figure denotes the percentage of respondents who "Disagreed" and "Strongly Disagreed" with the statement. Alternatively, the Resources vs. Low-Corruption Perceptions figure denotes the percentage of respondents who "Agreed" and "Strongly Agreed"" with the statement.

"machine politics"(Dixit and Londregan 1996), enhance communication with the electorate and make the latter aware of past and present benefits provided by the party. These measures, which range from personal contact with voters to use of regional networks, provide parties the dual benefit of engaging in credit-claiming and gathering information on voter attitudes. To illustrate, in his 2009 pre-election interview with Ora News Television titled "This Is Why My Victory Will Be by a Large Margin"[21], prime minister Sali Berisha addressed concerns that voters had been offered little opportunity to understand Berisha's past performance and his plans for the next four years, in the following manner.

> *I think that the campaign this time has had several dimensions. There is one dimension that has come to little media attention, our focus on the citizens . . . all our group leaders and candidates for deputies, all our party bodies have had intensive contacts with the citizens, talking to them, listening to them, and collecting their opinions. Such contacts, which could be hundreds in a day, have been little reported in the media. I have taken great care of this dimension and have issued clear directives to my people to have such contacts with the citizens. Besides, in addition to addressing rallies with thousands of people overflowing the squares, I have had individual meetings with young people. I have worked hard on this dimension.* [22]

Therefore, I expect that by building informational connections with the electorate, parties inform them about regional benefits and gauge voter attitudes in ways that help parties adjust their compensating algorithm according to the perceived elasticity of voter demand for accountability.

[21] The interview was conducted by Alfred Peza in the last days leading up to the 2009 election.

[22] Albanian PM rules out opposition's election victory; BBC Selected Newspaper Articles: Albania; June 25, 2009. Link: `http://infoweb.newsbank.com/resources/openurl?ctx_ver=z39.88-2004&rft_dat=document_id\%3Anews\%252F1291D9791E1A19B8&rft_id=info\%3Asid\%2Finfoweb.newsbank.com&rft_val_format=info\%3Aofi\%2Ffmt\%3Akev\%3Amtx\%3Actx&svc_dat=AWNB&req_dat=0D1A2AB84F2D3D40`

In the following section, I discuss sample selection, data sources and the structure of the main variables in the analysis followed by systematic tests of my theoretical expectations.

2.6 Empirical Analysis

2.6.1 Sample Selection: A Within-Country Analysis

To examine the effect of parties' distributive policies on voters' electoral response to corruption, I conduct a within-country analysis in the case of post-Socialist Albania. This methodological choice is grounded on a theoretical and empirical rationale. From a theoretical perspective, post-Socialist Albania demonstrates several characteristics central to the puzzle of electoral tolerance of political graft. The most critical of these is the country's excessive political corruption. According to Transparency International's[23] 2017 ranking, Albania with a CPI score of 38 and a global ranking of 91 trails Russia, Ukraine, Moldova and its bordering neighbors Macedonia and Bosnia and Herzegovina in transparency, making it one of the most corrupt European democracies.

A second dimension to this puzzle involves the country's incentives to gain EU membership. Having survived the longest and most isolationist Communist regime among the former Socialist countries, Albania entered its democratic phase as Europe's poorest and most struggling transitioning democracy. Under these conditions, the country's elites and its electorate have long considered EU membership a symbolic form of acceptance by the larger European community and, most importantly, a viable mechanism for remedying Albania's economic disadvantage. The electorate's rising expectations of EU integration, largely due to the economic advantages linked to EU membership, present Albania's post-Socialist

[23]Transparency International, 2017 Report. `https://www.transparency.org/news/feature/corruption_perceptions_index_2017`

political elites with increased electoral pressures to join the EU an incentive that has made EU membership a primary objective and politically rewarding subject of rhetoric among the country's post-Socialist leadership[24]. Under these conditions, the country's elites face credible and rational incentives to comply with the EU's anti-corruption measures in order to potentially secure membership.

Yet, despite EU-related constraints, the involvement of Albania's political representatives in political graft has persisted over time. Issues concerning illegal funding of political parties, the involvement of the country's political elites in faulty privatization practices and misappropriation of state revenue and property, etc., were at the base of Albania's 2012 ranking as the most corrupt country in Europe and one of the most corrupt in the world under Berisha's government[25]. In parallel with the country's growing political corruption, the electoral tolerance of Albanian voters, despite established mechanisms of democratic accountability, has also persisted over time. A case that illustrates both of these tendencies is the political rise of Ilir Meta, the leader of Albania's LSI (Movement for Social Integration) Party[26] and an avowed supporter of EU integration. Meta's tendencies toward graft were nationally broadcast when a 2011 video recording of his private, corrupt dealings with his collaborator, Dritan Prifti who at the time served as the Minister of Economy, Trade and Energy (2009 to 2010) was leaked to the national media by a disgruntled Prifti. Despite the scope of the scandal and subsequent outrage by the electorate, Meta, who at the time of the recording was Deputy Prime Minister under Berisha, continued his political rise. He became chairman of the Albanian parliament in 2013, and most recently, following the country's 2017 elections, was appointed president of the Albanian Republic.

[24] Albania submitted its application for EU membership in 2009 and was granted candidate status in 2014.

[25] Transparency International Report, 2012

[26] LSI aligned with Berisha's Democratic Party during the 2009 parliamentary elections to form the country's governing coalition.

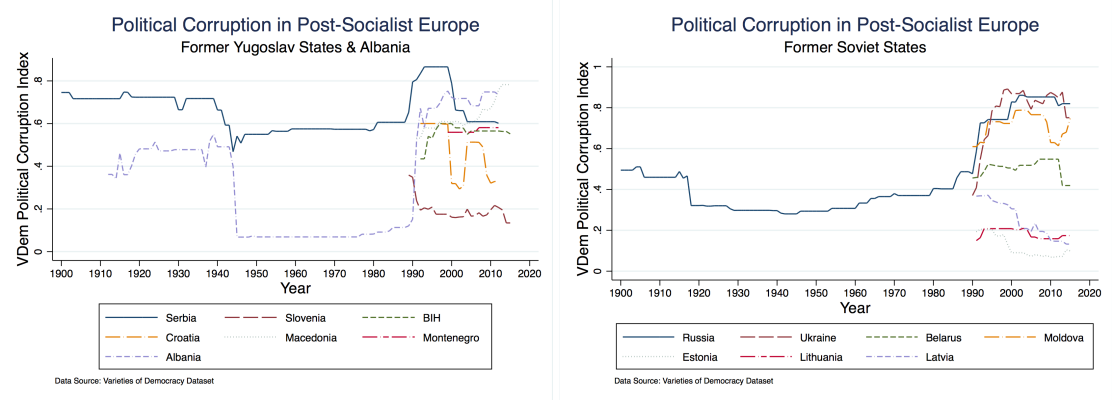
Similar cases of limited consequences for political misconduct by elected representatives persist in Albania, even while voters consider corruption to be a significant issue facing their country. According to the Albanian Institute of Statistics, in year 2010, nearly 50% of Albanian voters believed political parties to be involved "often" and "very often" in corrupt practices, while 60% believed the same of their central government (Figure B.1). In light of these parallel tendencies, the Albanian case constitutes, from a theoretical perspective, a fitting choice for an analysis of the strategies parties adopt to reduce voters' demand for electoral accountability.

From an empirical perspective, a within-country analysis is also a fitting selection. General data limitations on types of corruption across Europe's post-Socialist space hinder our ability to effectively explore variation in the forms of corruption and in voters' electoral response to it. In cases where the data allow for an exploration of types of corruption, the patterns that emerge are often contradictory and caution against treating the post-Socialist region as a whole. For instance, an analysis of the V-Dem data (Coppedge et al. 2016) indicates a general decline in public corruption, but an increase in executive, legislative and judicial corruption. A cross-country analysis of VDem's Corruption Perception Index[27] of several post-Socialist states indicates no clear pattern from which generalizable conclusions can be drawn (Figure 2.6).

In light of such empirical challenges, assessing the effect of parties' corruption compensation policies on electoral outcomes in a single country of the larger post-Socialist space enables a concentrated analysis of variation in patterns of electoral accountability while constraining variation in country-level factors.

[27] VDem's corruption perception index (v2x-corr) is constructed by weighting equally four various government spheres (executive, legislative, judicial and public sector).

Figure 2.6: Corruption in Post-Socialist States - VDem Dataset



2.6.2 Data Sources

To operationalize my hypotheses, I have compiled an original dataset consisting of electoral and fiscal indicators at Albania's municipality strata, which I merge with pre-existing data on micro-level corruption perceptions indicators. The sources of the data are multiple. To assemble district-level electoral data for the main political parties during the country's 2005 and 2009 elections, I rely on statistics from Albania's Central Election Commission (KQZ). For fiscal data on the amount of unconditional transfers distributed by the central government to the country's sub-national municipalities, I collect original indicators from the Albanian Ministry of Finance. I then map the unconditional transfers data, available at the district level, into the country's electoral municipalities to match the unit of analysis of the electoral data. Moreover, I rely on indicators from the Central Bank of Albania to collect data on economic indicators (e.g. gross domestic product, growth rate and gross value added by sub-regional governments to the central one). Economic indicators are only available at the county strata. Finally, I collect municipality-level population data from the Albanian Institute of Statistics (INSTAT).

To capture voters' corruption perceptions and attitudes toward political graft, I use the Life in Transition Survey (LITS) data. Administered by the European

Bank for Reconstruction and Development (EBRD), the LIT Survey, conducted in the years 2006 and 2010[28], captures the experiences and attitudes of citizens in transitioning, post-Communist European states. The LITS asks direct questions about respondents' perceptions of corruption trends and structurally align with this study's temporal frame and sub-regional focus[29].

Combined, the dataset I assemble is of a time-series-cross-sectional nature and its multileveled structure consists of repeated observations on fixed sub-regional units.

2.6.3 Dependent Variables

To test the combined effect of strategic allocation of resources with voters' corruption perceptions on parties' electoral outcomes, I concentrate the empirical analysis on two outcomes of interest: 1) the DP's vote share, and 2) changes in the DP's vote share between the 2005 and 2009 elections. I formally construct the dependent variables as follows.

$$\text{Party Vote Share}_{imt} = \frac{\sum_{j=1}^{n} \textit{Party Votes}_t^{ji}}{\sum_{j=1}^{n} \textit{Valid Votes}_t^{ji}} \times 100$$

Where Party Votes Share$_{imt}$ is the vote share for each political party at county i, municipality m at time t. Party Votes$_t^{ji}$ is the total number of votes for each party in each district j of municipality m of county i at time t, and Valid Votes$_t^{ji}$ are the total valid votes in each district j of municipality m of county i at time t.

$$\Delta(\text{Vote Share})_{cmt} = \text{Vote Share}_{cmt} - \text{Vote Share}_{cmt-4}$$

[28]The third round of the LIT Survey was conducted in 2016.

[29]In the case of Albania, the LITS uses the electoral register and divisions as the basis for the PSU (Primary Sampling Unit) sample frame.

Where c is the county, m is the municipality and t denotes year 2009[30].

2.6.4 Independent Variables

My theoretical expectation is that a policy of corruption compensation, whereby parties allocate greater resources to regions where the electorate is more alert about increases in political graft, is associated with higher electoral returns for corrupt parties in government. Therefore, I examine the interactive effect of two main explanatory variables on parties' electoral outcomes: 1) voters' perceptions of escalating political corruption and 2) its interaction with unconditional transfers per capita from national to local governments. I expect that the combined effect of these variables yields variations in patterns of electoral outcomes for Albania's Democratic Party under Berisha's government.

2.6.4.1 Corruption Perceptions

To capture voters' attitudes toward political corruption before and after the Gerdeci explosions, I collected regional responses to the following LITS question asked in both 2006 and 2010: "To what extent do you agree with the following statement: 'There is less corruption today than three years ago'?" I estimate the proportion of respondents who believed corruption had increased over the period 2006-2010 by combining the proportion of respondents who stated that they "disagreed" and "strongly disagreed" with the statement. I formally construct the corruption perceptions variable as follows.

$$\text{Share of Respondents}_{imt} = \frac{\sum_{j=1}^{n} \textit{Respondents per Question}_t^{ji}}{\sum_{j=1}^{n} \textit{Survey Participants}_t^{ji}}$$

[30]Tables B.1 and B.2 provide descriptive statistics of the dependent, explanatory and control variables included in the analysis.

Where Share of Respondents$_{imt}$ is the share of respondents in each county i, municipality m at time t. Respondents per Question$_t^{ji}$ is the total respondents who "disagreed" and "strongly disagreed" that corruption had decreased over the last four years in each district j of municipality m of county i at time t, and Survey Participants$_t^{ji}$ is the total number of survey participants in each district j of municipality m of county i at time t.

2.6.4.2 Unconditional Transfers as Revenue Sources for Sub-regional Governments

Albania's Organic Law "On the Organization and Functioning of Local Governments" specifies three types of transfers from the national to local governments: unconditional transfers, conditional transfers and shared taxes, which have yet to be created. The law states the intended purpose of unconditional transfers is to establish fiscal equalization between local governments. These include funding operating expenditures and investments such as reconstruction and maintenance at the local level. According to the National Strategy of Decentralization, unconditional transfers include: 1) a transfer of vertical compensation based on the ratio of responsibilities and functions between the central authorities and local ones to be used for general and non-targeted support of expenses for public services and functions of local governments, and 2) equalization grants to support local governments that have an insufficient local revenue and resource base.

The Organic Law, however, does not provide a definition of the allocating formula or the amount of unconditional transfers to be distributed to local governments. The law's ambiguity on both the size of the transfer and its allocating formula has allowed the party in government full discretion over the amount of unconditional transfers to be received by local governments and created an opportunity for manipulating both factors via repeated amendments to the national

government's Annual Budget Law[31]. I argue that this discretionary fiscal authority provides an opportunity for malfeasant incumbents to engage in corruption compensation by strategically allocating greater shares of resources to regions where electoral backlash against parties' grafting practices is more likely to be assuaged. Therefore, I use the share of unconditional transfers provided to local governments as a proxy for strategic allocation of resources by the Democratic Party. Normalizing the amount of unconditional transfers by the total number of voters per municipality accounts for the fact that larger municipalities require greater amounts of transfers in order for a distributive strategy to be effective.

Formally, Unconditional Transfers per Capita to each municipality m of electoral county i at time t is the ratio of the sum of the total amount of unconditional transfers distributed to each county's municipality j at time t, divided by the sum of total voters[32] in each county's municipality j at time t:

$$\text{Unconditional Transfers per Capita}_{imt} = \frac{\sum_{j=1}^{n} UT_t^{ji}}{\sum_{j=1}^{n} \textit{Total Voters}_t^{ji}}$$

where Unconditional Transfers per Capita$_{it}$ is the unconditional transfers per capita distributed from the national government to county i, municipality m at time t. UT$_t^{ji}$ is the total amount of unconditional transfers to district j of municipality m of county i at time t, and Total Voters$_t^{ji}$ is the number of voters of district j of municipality m of county i at time t.

2.6.5 Control Variables

To address alternative explanations for variation in voters' electoral tolerance of the DP's misconduct, I control for confounding variables associated with resource

[31]NALAS. Network of Associations of Local Authorities of South-East Europe

[32]To accommodate lack of data availability on district-level population, I use total number of voters as a substitute for district population.

distribution, corruption perceptions and the party's electoral returns. To account for the effect of voter's ideological alignment on the DP's electoral outcomes (Anduiza et al. 2013; Muñoz et al. 2016; Peters and Welch 1980), I construct a dummy variable that accounts for each district's ideological alignment during the previous election. I then include in the analysis the mean of this variable across each electoral municipality. This data comes from Albania's Central Election Commission (KQZ).

An alternative explanation for voters' lack of electoral retribution relates to the opposition's strength. A viable opposition not only constrains party misconduct out of fear of retaliation; it also affects voters' response to party performance by providing them with credible electoral alternatives (Ferejohn 1986; Fearon 1999; Grzymala-Busse 2008). To account for this tendency, I control for voters' perceptions on the strength of political opposition[33] across each subregional municipality.

Moreover, voters who perceive corruption to have increased over time may choose to abstain from voting altogether, particularly when the opposition is perceived to be an equally corrupt alternative. Under these conditions, voters have a low expectation of altering the political status quo and therefore choose not to turn out for elections.[34] To account for the possibility of non-engagement in the electoral process as a potential voter response, I therefore control for voter turnout by calculating its mean across each electoral municipality's various districts.

Finally, I include in the analysis a set of economic measures and population controls that may also affect the response variable. I account for regional GDP and growth rate as measures of the unconditional relationship between transfers and party vote shares. These controls enhance the models' accuracy and address the literature's findings that economic performance is a strong predictor of election

[33]To capture the strength of the opposition, I calculate at the municipality-level the proportion of respondents who responded "Agree" and "Strongly Agree" to the question: "To what extent do you believe that the following exists in your country: Strong Political Opposition."

[34]While turnout rates have indeed been on the decline throughout Eastern Europe in recent years, in the case of Albania, the drop in turnout rates between years 2006 and 2010 was only 2 percentage points, going from 51% in 2006 to 48% in 2010.

outcomes (Duch and Stevenson 2008; Lewis-Beck and Paldam 2000). Economic variables are only available at the county strata.

2.7 Empirical Strategy

To examine the combined effect of strategic allocation of resources and the electorate's corruption perceptions on party vote shares, I estimate a hierarchical, mixed effects linear model with random intercepts by municipality and county for municipality nested within county. The advantage of this model is that it contains year fixed effects that control for unobserved time-invariant confounders, while allowing for the inclusion of random effects other than those associated with the error term (Laird and Ware 1982). Hence, the model is a fitting choice for the structure of the data consisting of multiple levels of nested groups. Formally,

$$\begin{aligned} \text{DP Vote Share}_{icm} = \beta_0 + \beta_1 \text{UT Per Capita}_{icm} + \beta_2 \text{Share of High CP}_{icm} \\ + \beta_3 (\text{UT Per Capita} \times \text{Share of High CP})_{icm} \\ + \sum_{j=4}^{n} \beta_j X_j + \alpha_c + \mu_{cm} + \epsilon_{icm} \end{aligned} \tag{2.1}$$

where α_c and μ_{cm} note, respectively, county and municipality error terms and ϵ_{icm} denotes year-county-municipality error term.

To further test the effect of corruption compensation policies on the DP's electoral returns, I also test the effect of changes in the explanatory interactive term on changes in the DP's vote share between the 2005 and 2009 elections. I do so via an ordinary least squares (OLS) model with panel corrected standard errors a method that produces accurate coefficient standard errors (Beck and Katz 1995). Formally,

$$\begin{aligned} \Delta(\text{Vote Share})_{cmt} = \beta_0 + \beta_1 \Delta(\text{UT Per Capita})_{cmt} + \beta_2 \Delta(\text{Increased CP})_{cmt} \\ + \beta_3 [\Delta(\text{UT per Cap} \times \text{High CP})_{cmt}] + \gamma \mathbf{X_j} + \alpha_{cm} + + \epsilon_{cmt}, \end{aligned} \tag{2.2}$$

where $\mathbf{X_j}$ is a vector of controls, α_{cm} notes county municipality dummy and ϵ_{cmt} denotes the error term. The interactive term included in this model is constructed as follows.

$$\Delta[\text{UT per Cap} \times \text{High CP}]_{cmt} = [\text{UT per Capita}_{cmt} - \text{UT per Capita}_{cmt-4}] \times [\text{High CP}_{cmt} - \text{High CP}_{cmt-4}] \quad (2.3)$$

Where c denotes county, m municipality and t denotes year 2009.

2.8 Empirical Findings

Table 2.3 displays regression results of the determinants of DP vote shares in year t during the period 2005-2010. In models 1-5, the parameter β_3 is of primary analytic interest. It represents the interactive effect of strategic resource allocations and the electorate's corruption perceptions on DP vote shares. A positive β_3 would be consistent with the theoretical expectation that in efforts to mediate electoral punishment and deter potential defectors, corrupt parties allocate greater resources to regions where the electorate is most likely to punish.

I begin by estimating a simplified version of the hierarchical model to test the individual effects of resource allocations and corruption perceptions on the DP's vote share without the interaction term (Table 2.3, Column 1). The coefficient on the corruption perceptions variable is significant (p = 0.011) and in the predicted negative direction. This supports the theoretical expectation that higher corruption perceptions by voters have a negative impact on the electoral standing of corrupt parties in government (H1). The coefficient on the UT per capita variable is negative and lacks statistical significance, which suggests that when corruption perceptions of the electorate are not taken into account, the effect of resource allocation to

particular regions does not necessarily return positive electoral outcomes for the party in government.

This direct test of the effect of UT per capita on vote share (Table 2.3, Model 1) could be misleading for two reasons. First, it assumes that the effect of UT per capita is the same in both high- and low-corruption regions and second, it does not control for county-level characteristics that could be correlated with both UT per capita and the outcome variable the DP's vote share. To address the first concern, I include in Table 2.3 (Model 2) the interaction term of UT per capita with the proportion of respondents who perceived corruption to have increased over the last three years. The coefficient (β_3) of the interactive term is in the predictive positive direction and statistically significant at the 1% level ($p = 0.001$). Thus, distributing larger amounts of resources to regions where high proportions of voters consider the party to be corrupt results in higher electoral returns for the party in government. I address the second concern by controlling for voter turnout, party alignment, perceptions on the opposition's strength and voter population factors recognized by the literature to be related to both allocation of benefits and electoral outcomes. In Models 3 through 5, I further incorporate economic measures to assess whether the results are affected by individual counties' growth and development characteristics.

The findings presented in Table 2.3, show that the (β_3) coefficient of the interaction term remains positive and highly significant in the presence of the added controls. When controlling for turnout and party alignment (Models 4 & 5) the magnitude of the (β_3) coefficients decreases slightly as the added variables may be likely linked to both allocation of benefits and electoral outcomes. Nonetheless, the findings hold and are significant at, respectively, the 5% & .1% levels. These results lend support to Hypothesis 2 and confirm that when accounting for voters' corruption perceptions, strategic allocation of benefits by parties in government has a positive effect on the latter's vote share. The results also lend empirical sup-

port to previous findings on the effect of party alignment and turnout on electoral outcomes. The positive and highly significant coefficient of the party alignment variable (Model 4) suggests that ideological alignment has a positive effect on party vote shares. The negative and statistically significant coefficient of the turnout variable (Model 5), however, suggests an inverse relationship between the DP's vote shares and turnout. That is, vote shares for corrupt parties in government shift upwards when voters abstain from the electoral process.

Table 2.3: Determinants of Democratic Party Vote Shares (2005-2010)

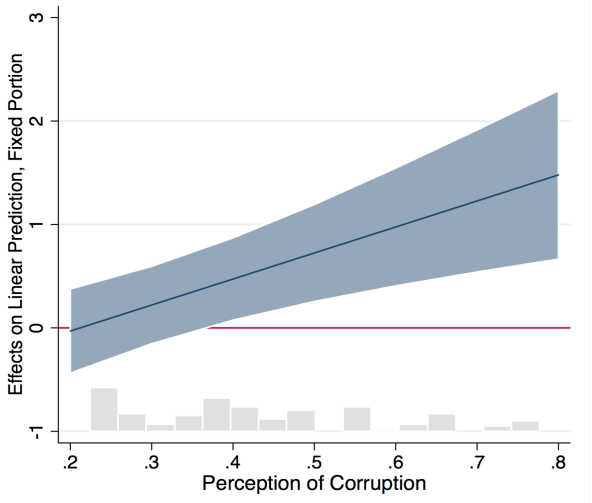
Model	(1)	(2)	(3)	(4)	(5)
UT Per Capita	-0.152	-1.115***	-1.602***	-0.253	-0.534^{+}
	(0.208)	(0.316)	(0.326)	(0.282)	(0.299)
Increased Corruption Perceptions (CP)	-5.288*	-19.655***	-20.298***	-11.430**	-16.787***
	(2.076)	(4.024)	(3.917)	(3.538)	(3.689)
UT Per Capita × CP		3.350***	3.554***	1.511*	2.516***
		(0.813)	(0.796)	(0.718)	(0.750)
Voters Per Municipality			-0.206***		
			(0.050)		
GDP			0.180	0.137	
			(0.140)	(0.121)	
Growth Rate			-0.103	-0.080	
			(0.112)	(0.099)	
Turnout				-25.810***	-28.775***
				(3.399)	(3.622)
Party Alignment				6.525***	
				(0.863)	
Strong Opposition				-1.603	-1.278
				(1.830)	(1.951)
ln(GDP)					-0.612
					(3.485)
ln(Growth Rate)					-0.648*
					(0.330)
County-Year Random Effects	✓	✓	✓	✓	✓
Municipality-Year Random Effects	✓	✓	✓	✓	✓
Year Fixed Effects	✓	✓	✓	✓	✓
Observations	336	336	336	336	336

Note: This table portrays a mixed, multilevel model analysis of the determinants of Democratic Party vote shares in year t. The dependent variable is Vote Shares for Democratic Party in electoral municipality m of county i at time t. The main explanatory variables are Increased Corruption Perceptions (CP) and the interaction term between Unconditional Transfers Per Capita (UT) and CP. Standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5 and 10 percent, respectively.

Given that the two main components of the interaction term UT per capita and corruption perceptions are both continuous in nature, a further empirical concern rests with the interpretation of their coefficients. Specifically, the negative coefficient on UT per capita implies that the negative correlation between corruption

perceptions and vote share only holds when the amount of UT per capita in a given municipality is zero. Similarly, the negative coefficient of the corruption perceptions variable suggests that the negative relationship between unconditional transfers and vote share only holds when the corruption perceptions of a particular municipality are zero. To address this concern and facilitate the interpretation of the marginal effects of the interacted explanatory variables on the outcome variable, I plot predicted changes in the DP's vote shares due to a one-unit change in UT per capita at various points of voters' corruption perceptions (with 95% confidence intervals). The plot, presented in Figure 2.7, suggests empirical support for the Corruption Compensation hypothesis (H2). It indicates that allocating greater amounts of strategic resources to municipalities with larger shares of corruption-alert voters has a positive effect on incumbents' vote shares. For instance, when corruption perceptions shift upward from .3 to .8, an increase in UT per capita results in reduced electoral punishment as vote shares for DP shift in the positive direction.

Figure 2.7: Marginal Effects of UT per Capita Conditional on Corruption Perceptions

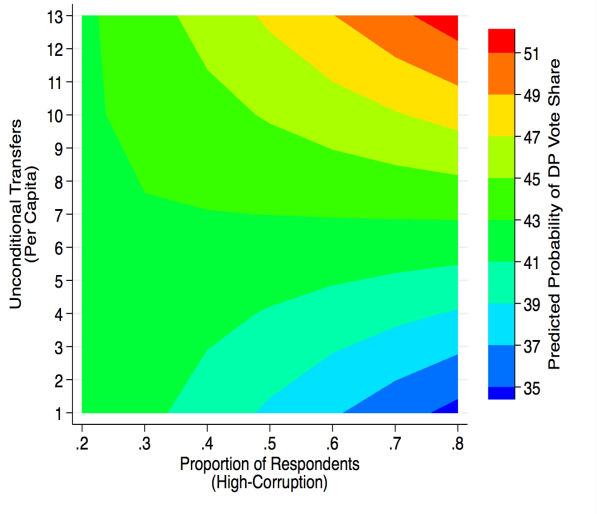


Note: The blue area denotes 95% Confidence Intervals

To visualize this relationship beyond a one-unit increase in UT per capita, the

marginal plot presented in Figure 2.8 captures the predicted probability of the DP's vote shares at various points of UT per capita and corruption perceptions.

Figure 2.8: Marginal Effects of UT per Capita & Corruption Perceptions on DP Vote Shares



The graph shows that strategic resource allocation by the incumbent has the effect of boosting electoral support for the allocating party. Thus, increasing the amounts of UT per capita from 3 to 12 units in a region where the proportion of corruption-alert voters reaches 60% has the effect of reducing voters' demand for accountability from the DP, as the predicted probability of the DP's vote share shifts positively from 39% to 49%.

These findings remain consistent when the sample of analysis is narrowed to the 2005 and 2009 election years. This measure, which checks for empirical robustness when the data is not repeated across time, inevitably reduces the number of observations from 336 to 56. Nevertheless, the results, presented in Table B.3, show that the coefficient of the Higher Corruption Perceptions variable (β_2) remains negative and highly significant throughout Models 6-9. This finding lends empirical support to Hypothesis 1, which predicts an inverse effect of higher corruption perceptions on vote shares. Similarly, the coefficient (β_3) of the interaction term

remains in the predicted positive direction and is consistently significant at the 1% and 5% levels. The findings hold when additional controls testing previously discussed influences on party's vote shares are included in the analysis. Finally, the predictive margins plot testing the effect of a corruption compensation strategy on electoral outcomes (Figure B.4) further suggests that the effect of UT per capita on the DP's vote shares increases as the electorate's corruption perceptions also increase.

To further test the findings' empirical robustness, I also estimate the effect of changes in corruption compensation on changes in vote share during the 2005 and 2009 elections. To do so, I employ an ordinary least squares (OLS) regression with panel corrected standard errors where the dependent variable is changes in the DP's vote share (Equation 2.2). To accommodate data structure and availability, here I am assuming that voters' corruption perceptions in year 2010[35] reflect those formed in year 2009 the year directly following the Gerdeci scandal. This assumption is theoretically justified on grounds of the scope and public outrage in response to the Gerdeci tragedy. Under these conditions, any significant shifts in public perceptions regarding the tendencies toward graft of the Democratic Party had to have been formed in the wake of the Gerdeci explosions and were captured by the 2010 wave of the LIT survey.

Table 2.4 provides the results of three OLS models with panel corrected standard errors estimating the determinants of the change in DP's vote share between the 2005 and 2009 elections. These results show that the coefficient of the interaction term is in the expected positive direction and maintains statistical significance at the 5% and 10% level. While the effect of the explanatory interaction term on changes in the DP's vote share is reduced after the reduction in sample size, these effects are consistent with earlier tests of the same relationship in a sample of 336 observations.

[35]The year the second wave of the LIT Survey was conducted.

They also remain robust when accounting for the additional controls associated with the explanatory and response variables.

Table 2.4: Determinants of Change in Democratic Party Vote Share(2005-2009)

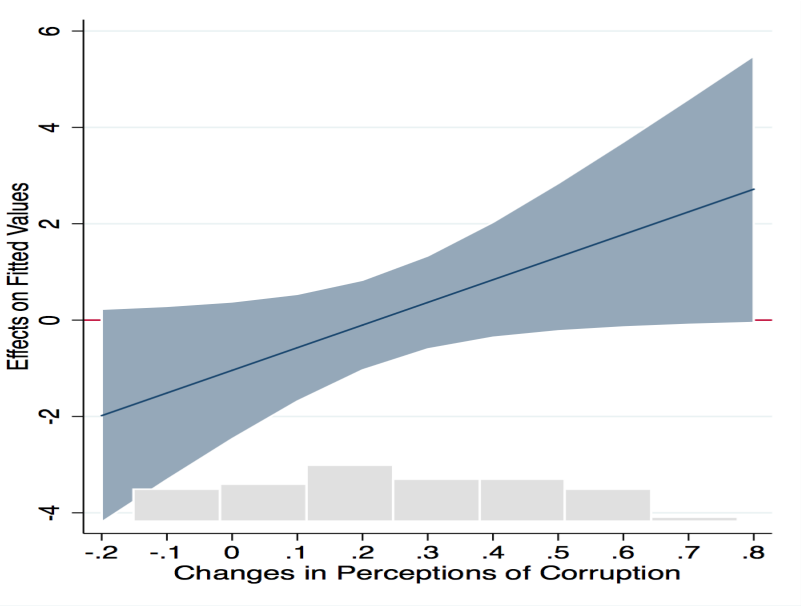
Model	(10)	(11)	(12)
Δ(UT Per Capita)	-0.739	-1.043	-0.956
	(0.720)	(0.725)	(0.713)
Δ (Increased CP)	-11.551**	-13.129**	-12.061**
	(4.113)	(4.121)	(4.254)
Δ(UT Per Capita) × Δ (Increased CP)	4.001+	4.700*	4.124+
	(2.378)	(2.357)	(2.376)
mean(Voters)	-0.459***	-0.412***	-0.334*
	(0.116)	(0.116)	(0.153)
Δ (Strong Opposition Perceptions)	-2.575	-2.147	-1.502
	(3.420)	(3.347)	(3.387)
mean(GDP)	0.160***	0.167***	0.161***
	(0.043)	(0.042)	(0.042)
mean(Party Alignment)		-1.449+	
		(0.862)	
mean(Turnout)			3.812
			(3.027)
mean(Growth Rate)			-0.597+
			(0.328)
Constant	3.132+	4.658*	4.568+
	(1.803)	(1.979)	(2.652)
Observations	56	56	56
Robust Standard Errors	✓	✓	✓
R^2	0.299	0.333	0.339

Note: The above estimates are from ordinary least squares (OLS) regressions with panel corrected standard error terms of the determinants of Changes in Democratic Party's Vote shares between years 2005 and 2009. The dependent variable is Δ(Vote Share for Democratic Party) in electoral municipality *m* of county *i* between 2005 & 2009. Main explanatory variables are Δ(Increased Corruption Perceptions) and its interaction with Δ (Unconditional Transfers Per Capita). Standard errors are shown in parentheses. ***, **, * and + indicate statistical significance levels of .1, 1, 5 and 10 percent, respectively.

The marginal plot of the effect of the interaction term on the change in vote share for DP between the years 2005 and 2009 is presented in Figure 2.9. The pattern observed suggests that changes in UT per capita have a positive marginal effect on changes in party vote shares as the proportion of voters who consider political

corruption to have escalated increases over time. Thus, under conditions of an increase in the proportion of people who consider political graft by the party in government to have escalated, a strategy of higher resource allocation to those municipalities improves the party's ability to shield itself from potential electoral punishment. Under these conditions, higher allocations translate to higher electoral support for the party.

Figure 2.9: Marginal Effects of Changes in UT per Capita on Changes in Vote Share



Note: The blue area denotes 95% Confidence Intervals

2.9 Conclusion

In this article, I have extended a theoretical account of corruption compensation that identifies spatial allocation of benefits as a proactive and retroactive reimbursement mechanism that parties employ in accordance to voters' corruption perceptions to shield themselves from increased demand for electoral accountability. Specifically, I have argued that parties allocate greater resources to regions where the electorate's corruption perceptions and by extension their demand for accountability is comparatively higher. Distributed by the national government and left

to the discretion of local governments, these resources enable corrupt parties to preempt electoral backlash and ensure marginal gains in voters' confidence.

This article has 1) provided new and comprehensive evidence of the effect of corruption compensation policies on incumbents' electoral outcomes in the case of Albania, one of Europe's most corrupt and understudied transitioning democracies; 2) expanded the ongoing conversation on the origins, causes and effects of corruption to include parties' and representatives' response to credible threats of electoral backlash (a question that has to date received minimal empirical attention in the literature); and finally, in combining parties' distributive strategies with voters' corruption perceptions, this theoretical account contributes additional perspective on the conditions that drive variation in voters' demand for accountability for political graft. It offers insight into the puzzle of why some corrupt parties pay dire electoral consequences and cease to exist while others survive and mitigate the electorates demand for accountability for political corruption. In doing so, this article contributes to the growing literature on how party strategies affect voter behavior and patterns of democratic consolidation across transitioning states.

This article's findings indicate that corrupt parties in government can increase allocation of strategic resources to sub-national regions, but those policies in themselves does not solve the party's credibility problem, nor do they consistently result in optimal electoral outcomes. It is rather a strategic calibration of distributive resources in accordance with the degree of the electorates' corruption perceptions that ultimately affects parties' electoral prospects and drives variation in voters demand for accountability for electoral corruption. One important implication of these findings is the insight that voters whose corruption perceptions are highest or undergo higher increases over time tend to be more responsive to corruption compensation strategies of parties in government. This tendency offers insight into the puzzle of why despite voters' protests against political graft, corrupt politicians across Europe's transitioning democracies are able to maintain political power. Investigating this dynamic in a larger cross-national setting can further advance our understanding of 1) why the voters most aware of corruption tend to also be

more likely to be compromised by it; and 2) how these tendencies affect patterns of democratic consolidation across transitioning states.

Finally, these findings have important policy implications for domestic governments and aid contributed to transitioning states by international allies and intergovernmental entities. Misallocation of governmental expenditures and foreign aid to regions that present a credible electoral threat to corrupt parties in government rather than regions in need of it suggests a need for institutions that monitor expenditure and transfer systems by domestic opposition forces and donor entities. Given the negative effect of political corruption on the duration of democracies (Figure B), curbing corrupt parties' ability to buy off demand for accountability for their non-democratic practices can impede their ability to degrade democratic institutions in the long run.

CHAPTER III

Unintended Consequences: EU Funds, Political Corruption, and Power Consolidation

3.1 Introduction

The European Union spends nearly 94% of its yearly budget on fiscal allocations to member states. The funds—which in the case of the less-developed EU countries comprise as much as 80% of their public investment[1]—aim to boost economic growth, promote regional and social development, and narrow the wealth gap among the Union's developed and developing post-socialist states. The underlying expectation is that by stimulating socioeconomic outcomes, these fiscal allocations will advance recipient states' institutional effectiveness, reinforce EU values, and ultimately enhance democratic performance across the region.

In practice, however, policy-makers and constituents have increasingly linked the EU's fiscal transfers to political corruption and institutional malperformance in target states—practices that, contrary to the funds' intent, undermine democratic effectiveness and jeopardize the EU's democratic consolidation. For instance, in 2008, the European Commission investigated and responded to high-level corruption and improper administration of European funds in Bulgaria and Romania by freezing nearly 500 million Euros in farming and structural aid to Bulgaria and 28 million in agricultural aid to Romania (Initiative 2008). Similarly, in 2012, the

[1](EU Budget)

European Commission withheld an additional 3.5 billion Euros from Romania's funding in response to a series of irregularities in managing the human-resources development sector (The Economist 2012). The misuse of fiscal transfers extends to the EU's most developed members as well. In July 2008, Brussels announced it would recall 400 million Euros from Italy, the UK, and Greece for violations of Common Agricultural Policy (CAP) rules. France, Germany, and the Netherlands were also implicated in the recall (Initiative 2008).

Citizens and policy-makers in recipient countries have also expressed frustration at the unintended consequences of the EU fiscal allocations. While voters in the EU's East and Central European member states, including Bulgaria, Poland, and Romania, have participated in organized protests against political corruption, domestic policy-makers and opposition forces have pointed to the EU transfers as an underlying mechanism that unwittingly supports political corruption in their countries. In a recent interview with the author, for instance, a Bulgarian policy-maker noted the following:

> *The EU funds have actually worsened the situation. Corruption became much more tempting for political elites when the resources became available. The money rendered them power. It also led to this new norm shared widely by political leaders today and that is—corruption is acceptable and it is even justified when the government is helping its people, even partially. What we are dealing with now is that over time the people's share got smaller and politicians' larger. And that applies not only to the money, but also to each group's respective power*[2].

These events raise the important question of how funds allocated by the EU to member states exhibiting varying degrees of political corruption shape domestic politics and incumbent parties' governing outcomes. Despite concerns about the linkage between rising political corruption and inefficient use of EU transfers by member states' authorities, the impact of EU funds on political corruption has received surprisingly minimal empirical attention (Fazekas et al. 2013a). Even less

[2]Interview conducted in July 2018.

empirical consideration has been given to the question of how allocations to corrupt EU states affect domestic party politics and the political longevity of recipient states' governing parties. While the development aid literature has devoted systematic due diligence and extended critical findings in regards to the effect of foreign and development aid on the quality of developing states' institutions, caution is needed when seeking to generalize these findings to EU member states, especially, as Fazekas et al. point out, given the variation in context and funding magnitudes between the world's developing countries and EU member states (Fazekas et al. 2013a).

Systematic assessment of the impact of EU allocation policies on political corruption and domestic party politics of recipient countries is relevant for both democratic theory and distributive policy purposes. By examining whether and how EU fiscal funds are utilized by member states for personal and political rather than economic purposes, these findings advance our understanding of the efficiency of the EU's fiscal and distributive policies. Hence, understanding this relationship helps explain variation in the degree of success that EU fiscal policies have garnered in promoting EU democratic values across the organization's geopolitical space.

In this paper, I analyze whether fiscal transfers allocated by the European Union to member states deliver an electoral advantage to recipient countries' governing parties, conditional on the degree of executive corruption across recipient states. I argue that greater allocations to the EU's corrupt member states increase the likelihood of misallocation by recipient states' governing parties. Given their engagement in political corruption, incumbents are more likely to expect electoral backlash, particularly in the presence of robust opposition (Grzymala-Busse 2007). Under these conditions, governing parties have incentives to engage in *"benefit-trading"* by diverting EU fiscal flows toward strengthening their political networks and implementing programs and policies that appease their electoral bases. Consequently, rather than promoting balanced economic development within the EU, greater funds to corrupt EU states may boost corrupt governing parties' competitive advantage over the opposition.

Examining data on fiscal funds allocated by the European Union to member states between 2000 and 2015, I empirically test my theory that incumbents' states with higher executive corruption display a larger electoral boost from external fiscal funds than their counterparts in less corrupt states. The results support my theoretical expectations, suggesting that corrupt governments divert EU fiscal funds toward practices and policies that increase their electoral payoffs. To my knowledge this study is the first to take into account target states' political corruption to document how EU transfers impact internal electoral politics in recipient countries.

3.2 Theoretical Perspectives

In the broader development literature, much research examines foreign aid and its link to target countries' corruption, institutions, and governance in Africa, Asia, or Latin America. Despite the different contexts, the dynamics that characterize the aid allocation process and the findings extended by the aid literature may offer insight into mechanisms whereby EU fiscal transfers may impact not only patterns of political corruption, but also the domestic politics of recipient states. One hypothesis is that recipient states' institutional performance and governance effectiveness shift in ways that optimize continuous flows of aid from donor states. The literature's findings in terms of the direction of this shift, however, are mixed. While some works find no empirical support for the impact of aid on democracy (Knack 2004), others find that aid inflows can serve as resource rents (Deaton 2013; De Mesquita et al. 2005; Djankov et al. 2008; Morrison 2007; Rajan and Subramanian 2007) that deteriorate the quality of target countries' domestic institutions, rights, and democratic governance (Alesina and Dollar 2000; Busse and Gröning 2009; de Mesquita and Smith 2013; Dreher et al. 2013; 2014).[3]

[3]The hypothesized mechanism here is that aid, similar to natural resources, offers a substitute for the domestic revenue collection typically associated with enhanced institutional performance (Moore 2004). By decreasing target states' dependence on internal revenues, aid diminishes political accountability, increases political corruption (Bräutigam and Knack 2004), weakens incentives for collective action (Booth 2011), and ultimately devitalizes target states' domestic institutions (Moss et al. 2006).

Other empirical works, however, refute the "curse" effect of foreign aid on governance (Altincekic and Bearce 2014). Pointing to the conditions attached to aid allocations by donor states, scholars argue that aid expenditures are conditional and therefore comparatively more constrained than expenditures financed by domestic revenues (Krasner and Weinstein 2014; Wright and Winters 2010). Under these conditions, the use of aid and fiscal allocations as non-taxable resources available for extraction by recipient states' elites is limited and therefore the elites' ability to engage in political corruption declines (Tavares 2003). Hence, donors' intent (Bermeo 2009), restrictions, and ability to withhold aid if conditions are not met (Epstein and Sedelmeier 2013) help maintain regime stability (Morrison 2009) and promote democratic institutions (Bermeo 2016; Scott and Steele 2011) by aligning the interests of domestic elites with those of donor entities (Faye and Niehaus 2012).

This general lack of consensus on a relationship between transfers, political corruption, and democratic outcomes is echoed in the Europeanization literature. Existing works focus primarily on the EU's role in establishing practices and procedures (Meyer-Sahling 2011) that helped revamp the economic and institutional structures of the region's less developed states (Epstein and Sedelmeier 2013), particularly in the post-Cold War period (Bermeo 2016; Dunning 2004; Fearon et al. 2009). One branch of the literature finds that under effective conditionality, monitoring mechanisms, and credible threats of fund-withdrawal by the EU (Epstein and Sedelmeier 2013), the EU's fiscal allocations shape the utility and policy choices of domestic elites in ways that promote institutional efficiency, human rights, democratic norms, and economic growth across the region (Carnegie and Marinov 2017; Mohl and Hagen 2010). Extrapolating from the aid literature, this effect is likely to increase in the presence of effective rule of law policies and macroeconomic measures, including the level of trade openness, inflation, and trade regulations that also reinforce recipient countries' economic development (Atkinson and Hamilton 2003; Asongu and Jellal 2013; Quazi et al. 2015; Burnside and Dollar 2000). Hence, when faced with credible threats of fund-withdrawal from the EU, recipient countries' elites are constrained in their ability to utilize EU funds for personal and political

gain.

Only recently have scholars started to examine the impact of EU funds on governance and patterns of political corruption in target states, particularly those of the ECE region (Fazekas et al. 2013a). Focusing on the type of investment sponsored by the funds and the degree of public discretion over said investment, scholars find that when EU allocations are invested in projects over which domestic actors and the public have high discretionary power, the likelihood of political corruption and ineffective governance in recipient states increases (Asongu and Jellal 2013; Dimulescu et al. 2013; Fazekas and Tóth 2017). As the aid literature points out, these tendencies are stronger in recipient states with a history of poor governance (Moss et al. 2006) and ineffective institutions that further exacerbate misallocation of external funds (Mehlum et al. 2006; Thérien and Noel 2000; Van der Ploeg 2011). Under these conditions, rather than promoting regional growth and economic convergence within the region, the EU funds provide a resource pool utilized by actors and political elites to extract rents and promote their personal and political interests (Ahmed 2012; Mungiu-Pippidi 2013). As a consequence, misallocating tendencies threaten the EU's economic and democratic norms by impinging on the recipient states' political culture and, as observed in the developing, post-socialist states of Hungary and Romania, reaching the highest strata of political leadership (Fazekas et al. 2013b; Dimulescu et al. 2013).

While current findings advance our understanding of the relationship between EU funds and corruption, the range of analysis is limited to the impact of fiscal transfers on *corruption* and does not engage with the question of how the EU funds *interact* with recipient states' corruption tendencies to shape party dynamics and the political survival of incumbent parties. Specifically, how does fund allocation to EU member states—taking into account the countries' degree of executive corruption—affect the democratic outcomes of executives and political parties with allocating discretion? And also, how do these dynamics differ across the EU's political space? The aid literature, for instance, finds that access to aid flows increases political competition and consolidates electoral support for newly elected leaders (Licht 2010).

However, these findings offer insight into the longevity of individual politicians rather than parties, and their empirical scope covers developing countries with distinct economic and political structures from the EU states. The Europeanization literature, for its part, assesses the funds' impact on patterns of political corruption in a subset of EU countries while leaving open the question of how the EU funds affect corrupt countries' internal politics. [4]

My paper builds upon these works to address this exact point and contribute a systematic understanding of this phenomenon. I offer and empirically test a novel theory that underlines the combined, explanatory effect of EU funds and the degree of executive corruption in recipient states and find that incumbent parties of highly corrupt states enjoy a larger electoral boost from EU fiscal inflows than those of less corrupt states. I present my theoretical rationale and hypotheses in the following section.

3.3 EU's Fiscal Transfers & Governing Parties' Competitive Advantage

Governing parties and political elites are driven by rational incentives to maintain political power and maximize the rewards associated with public office. These tendencies are especially strong in parties with corrupt dispositions, as their ability to continue accumulating desired payoffs requires maintaining political power. For instance, preserving power allows governing parties to use their privilege and resources to engage in clientelistic, principal-agent interactions with the electorate (Kitschelt and Wilkinson 2007; Hicken 2011; Muno 2010). It also allows them to implement distributive policies that compensate voters for parties' corruptive tendencies and appease particular electoral groups in ways that enhance corrupt incumbents' electoral returns (Anduiza et al. 2013; Banerjee and Pande 2007; Cox

[4] For instance, (Fazekas et al. 2013a) examine this relationship in the context of the Czech Republic, Hungary, and Slovakia, while (Dimulescu et al. 2013) do so in the case of Romania. A recent study by (Fazekas and Tóth 2017) takes an EU-wide empirical approach; however, the authors focus on the effect of EU funds on corruption, rather than the funds' impact on incumbent parties' governing outcomes.

and McCubbins 1986; Golden and Min 2013; Lederman et al. 2005).

That said, corrupt incumbents' ability to achieve their optimal outcomes diminishes when robust and organized opposition parties induce higher electoral accountability by providing voters with viable political alternatives (Barro 1973; Ferejohn 1986; Grzymala-Busse 2007; Tavits 2007). Under these conditions, incumbent parties have incentives to invest in ensuring the loyalty of their close network and electoral base as a mechanism for consolidating power and securing their competitive viability over opposition forces (De Mesquita et al. 2005). By doing so corrupt incumbents can, for instance, rely on their supporting networks to recruit "brokers" who monitor the electorate's behavior and ensure parties' continuous electoral support (Stokes et al. 2013). This form of *benefit-trading* is key to incumbents' longevity, particularly when parties' past practices of corruption and favouritism inform expectations of future benefits among their networks and politically aligned regions, as well as voters expecting tradeoffs for parties' political misconduct (Shehaj 2018). Hence, governing parties' incentives to use EU fiscal flows to gain a competitive advantage over opposition forces increase even further when they are corrupt.

However, governing parties' coalitions, which are stronger when parties initially take office, weaken over time (Licht 2010). These diminishing loyalties threaten incumbents' electoral survival, particularly when their history of corruption may be used by opposition forces and the media to increase voter information and undermine incumbents' electoral returns. Under these conditions, corrupt incumbents' incentives to maintain their position increase even further: institutional power grants them greater access, fewer controls, and greater distributive authority over the state's budgetary resources, comprised significantly of EU fiscal inflows. In the absence of effective governance, rule of law, and monitoring mechanisms (Asongu and Jellal 2013; Keohane 1998; Wright and Winters 2010), corrupt incumbents' ability to achieve these objectives and consolidate their position becomes a probable outcome.

I argue that under these conditions incumbents' ability to engage in *benefit-trading* with members of their personal and political network increases. These

conditions foster a political climate where corrupt incumbents face limited constraints on their ability to misallocate EU funds for purposes of rewarding their own networks, win the support of potential coalition partners, and implement policies that appease particular factions of the electorate. There is a potential risk to the misuse of EU's fiscal flows by corrupt and illiberal governments: The EU can choose to withdraw the funds as a punishment mechanism. However, the process of downsizing member states' fiscal flows calls for adjustments to the EU budget — a procedure that must be agreed upon by all national leaders unanimously. Thus, attempts to withdraw a particular illiberal state's funds require the approval of other, potentially illiberal governments who themselves stand to lose access to the EU's funds by setting a policy precedent. For instance, EU attempts to withdraw funds from Hungary require the unlikely approval of Poland—another corrupt and illiberal EU member uninterested in risking its own future fiscal flows due to domestic corruption and illiberal politics. Under these conditions, EU's threats to discontinue or altogether stop the fiscal flows are evaluated to be non-consequential and non-credible by the recipient member states. This could explain why despite the European Commission's 2021-2027 budget proposal to cut funds to the Eastern European countries, Hungary's Prime Minister, Viktor Orban, and Poland's Jaroslaw Kaczynski remain confident that their countries will remain the largest recipients of EU funds (Bershidsky 2018). Thus, leaders' utility costs for engaging in corruption are low given the revenue streams of EU funds. This in return diminishes their incentives to curb corruptive practices and increases their governing latitude over opposition forces. Given these dynamics, I expect EU fiscal transfers to boost the electoral shares of corrupt incumbent parties over the opposition in EU states.

Additionally, I expect the intensity of this effect to vary across the EU's developed and developing states. Fiscal transfers, much like aid, serve as a sizable, non-taxable resource that incumbents as well as opposition and other factions compete over (Svensson 1999; Tornell and Lane 1999). This is especially the case in the EU's post-socialist states. While the EU's better-performing economies accumulate the bulk of their financial revenue from trade and other domestic economic initia-

tives, the main source of income for the less developed, post-socialist economies is European funding, which finances up to 80% of their public investment (EU Budget 2015). Hence, the EU's fiscal transfers comprise the largest resource pool from which the governing parties of post-socialist states can draw to engage in rewarding strategies that yield a competitive advantage over the opposition.

In accordance with the above discussion, I offer the following hypotheses:

$\boldsymbol{H}_1$ *Increases in the corruption tendencies of recipient states' governing parties have a negative effect on parties' governing shares.*

$\boldsymbol{H}_2$ *The electoral margins of governing parties in high corruption states increase when the amounts of the EU's fiscal allocations also increases.*

An important point to make in regards to Hypothesis 2 is the issue of reverse causality. As argued in the aid literature, the direction of causality is an important concern when assessing the relationship between aid and development. For instance, does aid cause poverty, or is it the case that underdeveloped countries receive more aid to address poverty? When assessing the direction of causality between EU funds and corrupt states' incumbent parties however, this is less of a concern. It is difficult to imagine that the EU would allocate greater resources to corrupt incumbents for purposes of combating corruption. This reasoning is evident in the Commission's threats to freeze funds to Romania, Czech Republic, Hungary and other EU states plagued by political corruption.

Prior to testing these expectations, I discuss the EU's Budget composition and briefly illustrate these dynamics in the case of Poland.

3.3.1 The EU's Budget Composition & Fiscal Funds Distribution

The distribution of funds among member states is a central feature of the EU's budget. The purpose of the fiscal distribution, understood here as the mechanism via which fiscal funds are transferred from the EU budget to member states, is to narrow the wealth gap between the EU's developed and developing states. The funds are drawn from a common pool of resources to which all member states contribute a share proportionate to their gross national income (GNI). These con-

tributions make up the largest portion of the EU budget and are used to balance the organization's revenues and expenditures (European Commission 2013). Additional revenues contributing to the EU budget are customs duties on imports from outside the EU and sugar levies, as well as a standard percentage based on the harmonised value added tax (VAT) payments of each member state (EU Budget). Other sources of revenue falling under the EU's "Own Resources" category include taxes on EU salaries, fines imposed on companies that breach competition laws, and contributions to particular EU programs made by non-EU countries (EU Budget).

Approximately 94% of the EU's budget is distributed among its member states. These expenditures are payments allocated to national governments during a fiscal year. They are drawn from year *t*'s appropriations or from year (*t -1*)'s carryovers of unconsumed funds. The amount allocated to each member state corresponds with its national GNI and is distributed according to the EU's criteria that "all possible expenditure[5] must be allocated" (EU Budget 2015). The fiscal flows are designed to fund country-specific projects and implement various EU-initiated policies in recipient states (EU Budget 2015). While the amount of funds allocated to national governments varies, they constitute a significant portion of income for all member states and contribute to the improvement of several domestic policy areas, the two main ones being "sustainable growth and natural resources," and "economic, social, and territorial cohesion." Table 3.1 presents the allocation of the EU's expenditure (141,586 million Euros) during fiscal year 2015. It indicates the main policy areas and projects funded in the EU, the amount allocated to each category, and the proportion of the total budget they constitute.

The process of fiscal distribution among EU countries serves either as a liability or an opportunity, given a member state's degree of economic development and population size. For the better-performing economies of Austria, the Netherlands, Germany, Sweden, etc., the responsibility of contributing to the EU budget is disproportionately heavier than for less developed EU countries. Given their relative

[5]Exceptions to this criteria include expenditure related to external actions, the pre-accession strategy, guarantees, reserves, and unmarked revenue.

Table 3.1: EU Budget 2015 - Fiscal Distribution(in million EUR)

Policy Area	Amount	Proportion of EU budget
Competitiveness for Growth and Jobs	15581	11%
Economic, Social & Territorial Cohesion	50961	35.99%
Sustainable Growth: Natural Resources	56634	40%
Security & Citizenship	1958	1.38%
Global Europe	7648	5.4%
Administration	8551	6.04%
Compensations	252	0.18%
Special Instruments	0	0%

wealth—measured by national gross national income—the EU's developed members are institutionally obliged to make greater monetary contributions to the EU's budget than their developing, post-socialist counterparts. This pattern is reversed when considering the distribution of benefits and fiscal flows among the EU's member countries. Given the EU's fiscal prioritization of policies geared towards "Economic, social, and territorial cohesion" and "Competitiveness for jobs and growth," the region's less developed economies receive greater allocations[6] while contributing comparatively smaller shares to the EU's total revenue. To provide an example of the imbalance in transfers among EU states: In year 2015, Estonia, Poland, and Romania—three of the EU's post-socialist, developing economies—were allocated, respectively, the amounts of 13,695 million, 13,357 million, and 6,538 million Euros. This funding includes "Cohesion Policy" funds allocated to the EU's underdeveloped regions and member states in order to generate growth and employment in these areas (EU Budgetary System). In turn, the EU allocated the better-performing economies of Austria, Sweden, and the Netherlands the respective amounts of 1,787 million, 1,467 million, and 2,359 million Euros of its budget (European Commission 2013). The fiscal disbursements to national governments have increased further in recent years as the share of the EU's budget allocated to policies that promote economic development and narrow the wealth gap between members has increased by approximately 20 billion Euros since 2014 (European

[6]European funding in the EU's poorer countries finances up to 80% of their public investment.

Commission 2013).

While the disbursements to member states have accrued over time, the funds' effectiveness in reaching the desired economic, social, and institutional objectives in recipient states has varied considerably across the region. In some countries, notably the developing democracies of Romania and Bulgaria, fiscal flows have been associated with a surge in political corruption (Fazekas and Tóth 2017). In such cases fiscal flows have been strategically diverted by governing parties and political elites to reward their personal and political networks, favour strongholds of electoral support, and forestall electoral accountability. Yet in other states, such as Poland and Hungary, the EU's fiscal distributions have contributed to implementing programs and policy measures that have boosted their transitions into well-performing market economies. However, both Poland and Hungary's increasingly authoritarian political developments may point to weaknesses in the efficacy of fiscal flows to promote not only democratic robustness in recipient states, but also political cohesion within the EU. Despite established monitoring mechanisms [7] at both the EU and national levels, success in curbing the misallocation of fiscal funds in recipient states has been limited.[8]

[7] The European Anti-Fraud Office (OLAF) investigates "fraud against the EU budget, corruption and serious misconduct within the European institutions" (OLAF 2018). The OLAF works closely with the "Anti-Fraud Coordination Service" of each member state and attaches repercussions to intentional misallocation of funds. It places accountable parties either in the "Early Detection and Exclusion System" (EDES) or the "Exclusion" category which prohibits them from future fiscal flows from the EU. An additional EU-monitoring institution is the European Court of Auditors (ECA). The ECA reviews the parties responsible for managing European funds and conducts routine "Compliance Audits" on the European institutions to prevent and reduce fraud within them. The ECA's findings are reported to the OLAF.

[8] A primary reason for this is lack of enforcement mechanisms at the EU level. While the OLAF has the power to identify and ban misallocating parties from receiving future funds, the authority to hold these parties legally accountable rests with the national governments. This lack of supranational enforcement mechanisms makes it feasible for individuals and parties in recipient states to continue misusing the funds for personal and political purposes with little to no legal ramifications (Fazekas et al. 2013a). To illustrate, between 2010 and 2017, the OLAF conducted over 1,800 investigations into the misuse of EU funds and issued over 2,300 recommendations for disciplinary actions to be taken. Nonetheless, deliberate mismanagement of the EU's fiscal flows persisted in recipient countries, particularly in the newer democracies, despite efforts to combat practices of bid rigging and kickbacks by the EU (Ferwerda and Deleanu 2013).

3.3.2 An Illustrative Case

The relationship between fiscal flows, corruption, and electoral returns for domestic governing parties is evident in the case of Poland. Having joined the European Union in 2004, Poland—a country increasingly marked by cases of political corruption[9]—has been the recipient of large shares of EU funds, with this total peaking in 2014 at nearly 17.5 billion. From the time of its accession to the EU through 2015, Poland was governed by the Civic Platform (PO), led by Donald Tusk, in coalition with the Polish People's Party. The PO and the People's Party combined for 47.5% of the vote and 235 seats in the Sejm, the Polish lower chamber, an absolute majority, in the 2011 parliamentary elections. Aided by a first-past-the-post electoral system, the increasingly authoritarian Law and Justice (PiS) party were also able to secure a 235-seat majority after the 2015 elections, despite having only won 37.6% of the vote.

PiS has made strategic use of the EU's transfers to reward its political network and constituent base. Two particular measures used by PiS have been appointing party supporters to key allocating posts and implementing domestic policies aimed at garnering the electoral support of targeted constituencies. To illustrate, in 2016, former PiS Prime Minister Beata Szydlo appointed Marek Chrzanowski—who in November 2018 resigned over corruption allegations[10] —to the position of Poland's Financial Supervision Authority (KNF)— a position that granted Chrzanowski access and authority over Poland's fiscal resources, comprised heavily of EU transfers.

Additionally, PiS has utilized EU funds implement domestic policies aimed at garnering the electoral support of the parties' constituent base. PiS derived much of its success from its 500+ Initiative, which provides Polish parents with a tax-free benefit of PLN 500 (about 120 Euros) per month for their second and any further children until the age of 18. This accounts for 12% of the Polish average

[9] Poland's 2003, 2007, and 2015 governments have routinely engaged in bribery and corruption scandals.

[10] Chrzanowski was reported to have solicited a bribe in the amount of 40 million zloty (9.3 million Euros) in return for lenient treatment to a national bank with a history of large numbers of non-performing loans.

wage and costs the Polish government about 4 Billion Euros per year. Families below a further income level also receive financial support for their first child. While targeted at strengthening birth rates and family values, the policy led to a significant electoral boost for PiS, which gains most of its support from Poland's poorer, rural population, who benefit disproportionately from this policy (Marcinkiewicz and Stegmaier 2016). Economically insecure voters were more likely to support PiS than their economically secure counterparts, with this policy being one of the main drivers of their electoral success (Piotrowska 2016). PiS was able to pursue this policy due to the relatively large amount of funds Poland receives annually from the European Union. These funds allow the Polish government to reduce spending in projects such as infrastructure investments, which the EU often helps fund, and redirect it toward welfare programs such as the 500+ Initiative.

With access to a large amount of EU funds and a political climate that lacked strong leadership after Tusk became the President of the European Council, PiS were able to win an absolute majority by using the EU's fiscal transfers to engage in activities that targeted their voting base.

3.4 Research Design

3.4.1 Sample Selection and Data Sources

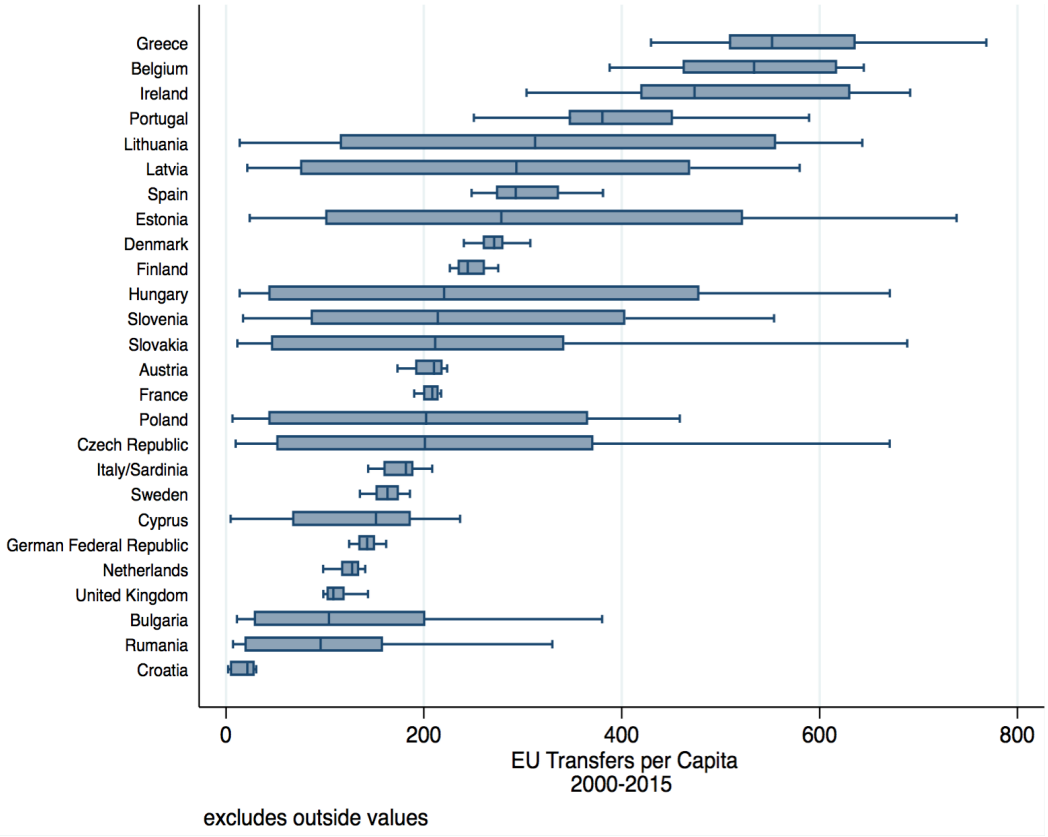
To assess how EU disbursements shape domestic party politics and the competitive advantage of recipient countries' governing parties, I concentrate my analysis on twenty-six member states over the period 2000-2015[11]. These countries share common institutional structures while displaying distinct development trajectories. Their commonalities include EU-defined institutional and regulatory frameworks and participation in the EU's legislative and executive bodies via elected representatives. Yet they differ in terms of economic performance, democratic robustness, and historical legacies—with several post-communist members, including Hungary, Poland, Romania, etc., lagging behind in economic growth and effective

[11] To accommodate data availability, Cyprus and Malta are excluded from the analysis.

governance.

Importantly, these countries differ along two main theoretical dimensions argued here to shape incumbent parties' political gains— the amount of fiscal flows and degree of executive corruption. First, given their respective GNI and population sizes, the amount of EU funds per capita distributed to member states differs significantly across the region and over time (Figure 3.1). For instance, in 2015, Sweden received 150 Euros per capita in EU disbursements while Poland and Bulgaria received, respectively, 352 and 689 Euros per capita. (Figure 3.2).

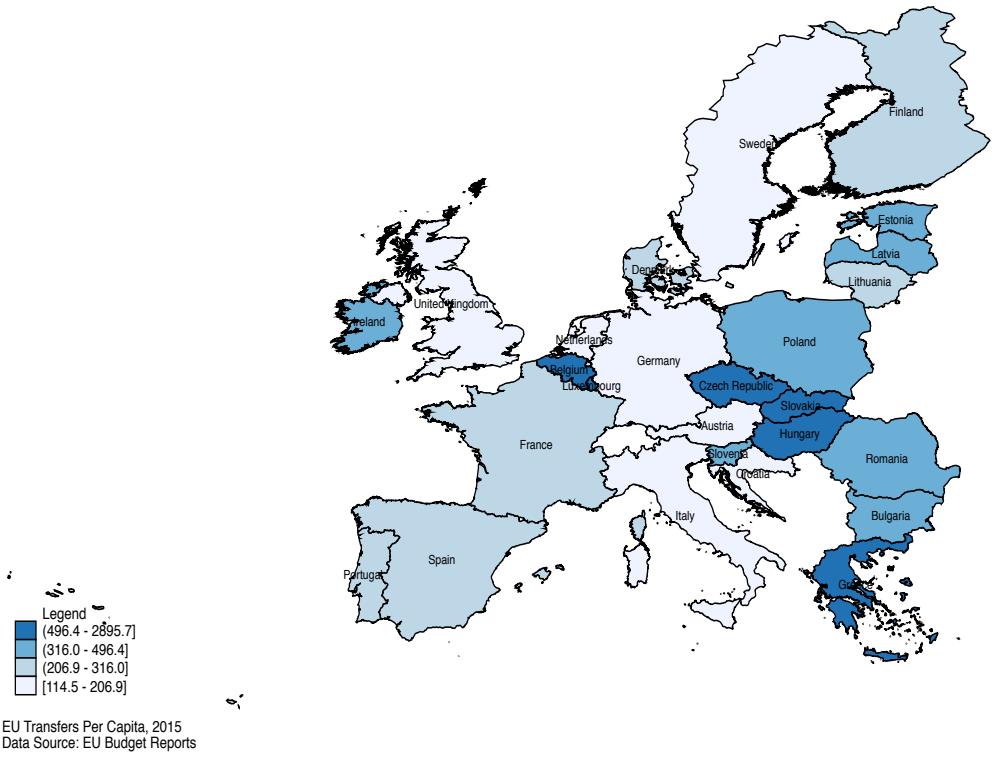
Figure 3.1: EU Transfers Per Capita (2000-2015)



Note: The box plot displays the distribution of EU fiscal transfers across member states during 2000-2015. The graph indicates the range, median, and means of the ratio of the total amount of EU funds received by recipient country *i* in year *t* to country *i's* population over year *t*.

Additionally, the countries under consideration demonstrate distinct patterns of political and executive corruption. Despite established monitoring mechanisms and uniform expectations of corruption controls and fiscal transparency by the EU,

Figure 3.2: A Graphical Representation of EU Transfers per Capita
EU Member States, 2015

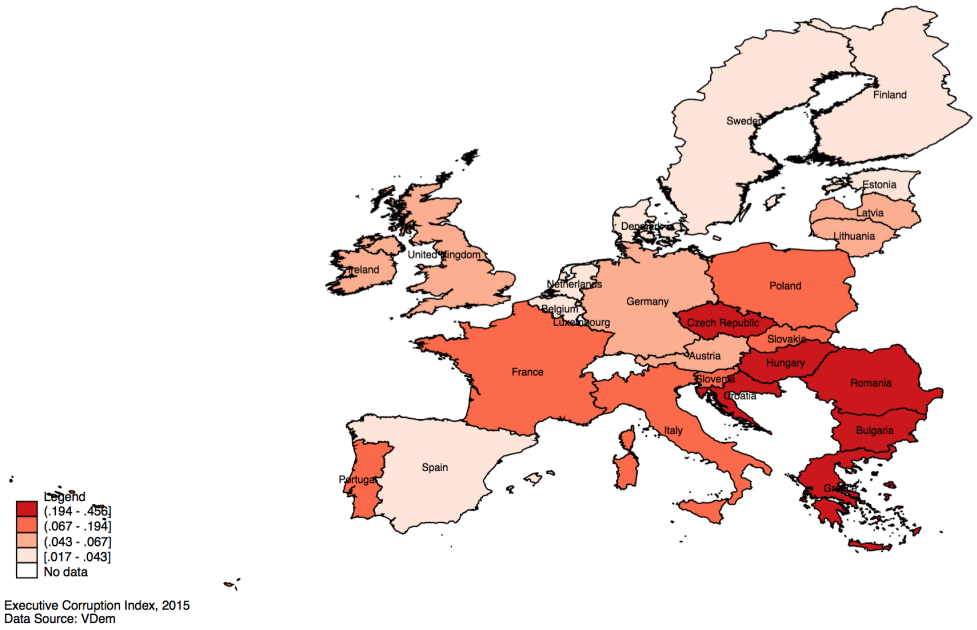


Note: The graph represents the amount of EU transfers allocated to each recipient country relative to each country's population in 2015. Darker areas indicate greater EU transfers per capita allocated to the recipient country.

political and executive corruption is particularly high among the EU's post-socialist members and reaches the highest executive ranks (Fazekas and Tóth 2017). As captured in Figure 3.3 the post-socialist members display comparatively higher levels of executive corruption than their Western counterparts.

The empirical analysis utilizes a combination of original and preexisting data. To collect indicators on one of the study's main explanatory variables—the amount of EU disbursements to recipient states—I rely on the European Commission's Budget Reports for years 2000-2015. Additional data on the explanatory and main control variables included in the analysis are obtained from several datasets, including the Database of Political Institutions (Keefer and Scartascini 2016), Polity IV Democracy (Marshall and Gurr 2015), Varieties of Democracy Dataset (VDEM) (Coppedge et al. 2017), World Development Indicators from the World Bank (WDI) (World Bank

Figure 3.3: A Graphical Representation of the Executive Corruption Index EU Member States, 2015



Note: The graph represents each EU member state's Executive Corruption Index in the year 2015.

2017), World Governance Indicators (WGI) (Kaufmann et al. 2011), and Boix, Miller, and Rosato Democracy Data (Boix et al. 2013).

3.4.2 Dependent Variable

My main expectation is that higher fiscal inflows to politically corrupt EU countries deliver a political advantage to incumbent parties over opposition forces. To capture this effect, the empirical analysis focuses on the seat share of recipient states' governing parties as the main outcome of interest. This variable captures the fraction of seats held by government parties in country i during year t. The measure is calculated by dividing the total number of government seats by the total number of government plus opposition plus non-aligned seats (Keefer and Scartascini 2016). The dependent variable remains constant in the years between parliamentary elections. Therefore, to take advantage of the variation in the outcome variable, I

concentrate the analysis only on years during which parliamentary elections were held.

3.4.3 Explanatory Variables

In accordance with my theoretical expectations, this study's main explanatory variable is the interacted effect of the total shares of fiscal flows distributed by the EU to national governments $\times$ the degree of executive corruption in recipient countries. I collect the data on the total amount of fiscal transfers allocated to EU member states from the European Commission's Budget Reports for the years 2000-2015. The transfers are distributed across several categories, including agriculture, structural, development, etc. My theory, however, is primarily focused on 1) the quantity of funds received by recipient states; and 2) access to the funds by governing parties. Thus, my interest lies less with the transfers' intended policy objective and more with the total shares of fiscal flows available to the governing parties of recipient states. For this reason, I aggregate my measure of fiscal transfers across the various divisions of EU expenditure.

Consistent with the larger aid literature, I then calculate two different measures that capture, respectively, the short-term value of EU fiscal flows and the size of transfers received by member states: 1) fiscal transfers per capita, and 2) fiscal transfers by government expenditure. In regards to the first: a contested feature of the EU's redistribution mechanism as well as its decision-making system is the size of member states' populations. Member states with smaller populations are favoured by the EU's institutional structure (Mattila 2006). They are routinely overrepresented in EU legislative bodies, including the Council of Ministers, and use their powers within the organization to influence EU budget decisions and increase their fiscal inflows. I account for this empirically, by constructing the share of fiscal flows per capita variable. The variable is calculated by dividing the total amount of expenditures that EU allocates to state i in year t by the population of state i during year t, where, as indicated earlier, the amount of transfers allocated to state i over year t is the aggregate sum of all different categories of EU expenditure directed

to country i in year t. Normalizing disbursement size by population accounts for the likelihood that smaller states that are overrepresented in the European Council receive greater allocations by the EU (Mattila 2006; Rodden 2002). Also, I measure the size and relative value of EU fiscal flows to each recipient country's economy by taking the ratio of the funds allocated to state i in year t to the total government consumption of state i during year t. The distribution of this variable across the EU states during the period 2000-2015 is presented in Figure C.1.

The second component of the main explanatory variable is the Executive Corruption Index (ECI) of country i at year t. I obtain this variable from the Varieties of Democracy Dataset (Coppedge et al. 2017). The index is formed by taking the average of the point estimates from a Bayesian factor analysis model of the indicators for executive bribery[12] and executive embezzlement[13]. These indicators provide a good estimate of the corruption practices of governing parties and elected executives. They are derived from responses to the question "How routinely do members of the executive, or their agents grant favors in exchange for bribes, kickbacks, or other material inducements, and how often do they steal, embezzle, or misappropriate public funds or other state resources for personal or family use?" The data is in interval format and its direction runs from less to more corrupt.

3.4.4 Control Variables

The control variables included in the analysis account for factors plausibly associated with the study's main explanatory and dependent variables that is, the share of EU funds, the degree of executive corruption and the seat shares of receiving states' incumbent parties. Previous research argues that countries with shared democratic norms and institutions are less likely to misallocate aid and external funds for political purposes. To account for these effects, I control for the degree of variation in recipient states' political institutions. I obtain the data from the Polity IV dataset ((Marshall and Gurr 2015). The continuous (versus binary)

[12](v2exbribe)
[13](v2exembez)

nature of the Polity IV combined score allows me to effectively capture any changes caused by the inflow of fiscal transfers.[14]

Equally important is the degree of effective governance in recipient states. Higher fiscal inflows to inefficient governments provoke higher corruption risks and fewer limits on incumbents' opportunity to misuse fiscal flows for electoral gains. I account for this tendency by controlling for government effectiveness in recipient states. The data for this variable is obtained from the World Bank Worldwide Development Indicators (WDI).

Moreover, the politics of fiscal allocations and party outcomes differ among recipient countries based on their experience with democratic governing. Previous literature suggests that in the case of the EU's post-socialist states, communist legacies and prior government quality continue to influence the quality of institutions and domestic politics in transitioning states (Moss et al. 2006). I account for these effects by controlling for the duration of democracy and whether recipient countries have undergone a democratic transition in the post-1990s period. The data for democracy duration comes from the Data Set of Political Regimes (Boix et al. 2013). I code the variable for democratic transition by assigning it a value of 1 if country i underwent a democratic transition in the post-1990s period and 0 otherwise.

The analysis also includes controls for political stability and the rule of law—factors found by previous works to influence the relationship between aid flows, corruption, and party politics. Political stability facilitates the strength of the judiciary, which in return promotes the rule of law. Under these conditions, the opportunity of domestic elites to misallocate aid and other external funds for personal and political purposes is constrained by legal bounds (Staats and Biglaiser 2012). I account for these dynamics by controlling for recipient countries' political stability and the rule of law. The data for the political stability are derived from the State Fragility Index (SFI) while the rule of law variable comes from World Bank Worldwide Development Indicators (WGI).

[14]Polity scores combine several measures key to the analysis, among them constraints on the executive, competitiveness and regulation of participation, as well as openness and competitiveness of executive recruitment.

Additional controls included in the analysis account for the robustness of civil societies and equal distribution of resources in recipient states. Similar to aid, EU allocations influence the political environment and civil societies in ways that promote dialogue among polarized actors, change their incentive structures (Santiso 2001), and affect citizens' political behavior and vote choices (Carothers and Barndt 1999). This political atmosphere may also shape demands for equal distribution of resources by active citizens informed about states' fiscal inflows. Thus, robust civil societies relate to the efficiency of allocations as well as incumbents' outcomes. I account for these effects by controlling for robust civil societies and equal distribution of resources. The data for these variables is derived from the Varieties of Democracy (V-Dem) data set.

Finally, I include in the analysis a control for the year during which legislative elections are held. This is a binary variable that takes on the value of "1" in legislative election years and "0" in the years between elections. The GDP (logged) of each target country i in year t is also included to account for the macroeconomic performance of recipient states. Table D.1 presents the descriptive statistics for all control Variables.

3.4.5 Empirical Strategy

To regress the dependent variable, seat shares of recipient states' governing parties, *Seat Share*$_{it}$, on my main explanatory variables, *Share EU Transfers*$_{it}$, *Executive Corruption Index (ECI)*$_{it}$, and their combined effect [*Seat Share*$_{it}$ $\times$ *ECI*$_{it}$], I use a pooled cross-sectional time-series ordinary least squares (OLS) analysis with country clustered standard errors. Formally,

$$\begin{aligned}\text{Seat Share}_{it} = \beta_0 + \beta_1 \text{Share (EU Funds)}_{it} + \beta_2 \text{Executive Corruption Index (ECI)}_{it} \\ + \beta_3 [\text{Share (EU Funds)} \times \text{(ECI)}]_{it} + \beta_4 \text{Polity}_{it} + \beta_5 \ln(\text{GDP})_{it} \\ + \sum_{k=6}^{n} \left(\beta_k \text{Control Variable}_{(k-4),it} \right) + \alpha_i + \mu_t + \epsilon_{it},\end{aligned}$$

where α_i and μ_t denote respectively, country and year dummies and ϵ_{it} denotes the country-year error term.

Given that incumbent parties' vote shares remain constant in the years between elections, I only regress the portion of the sample during which legislative elections were held. This permits me to effectively capture variation in the dependent variable, governing parties' *Seat Share*$_{it}$. I also include in the analysis country and year fixed effects. Country fixed effects capture country-specific, time-invariant variables that associate with the dependent variable, while year fixed effects capture global factors that may affect incumbents' seat shares in recipient state i during year t. I report the empirical results in the following section.

3.5 Empirical Results

Table 3.2 presents regression estimates of the determinants of seat shares for incumbent parties in EU member states during the period 2000-2015. The measure for EU transfers in models 1-4 is amount of fiscal transfers per capita. The main parameter of interest in all presented models is β_3, which captures the combined effect of [*Seat Share*$_{it}$ $\times$ *ECI*$_{it}$] on the dependent variable, governing parties' *Seat Shares*$_{it}$. A positive β_3 estimate corroborates the theoretical expectation that increases in fiscal flows to member states with high degrees of executive corruption are associated with increases in electoral margins for recipient states' governing parties.

Model 1 estimates a simple version of the relationship between EU funds, executive corruption, and incumbents' seat shares. The coefficient on the executive corruption variable is highly significant (p = 0.001) and in the predicted negative direction. This suggests an inverse effect of executive corruption on governing parties' seat shares, which corroborates Hypothesis 1. However, the direction of this effect shifts to positive—while maintaining its statistical significance—when recipient states' ECI index is interacted with the amount of EU funds per capita received by member states. These findings also hold when additional governance

and macroeconomic controls are added to the analysis. Models 2, 3, and 4 control for recipient states' GDP (logged), Polity IV score, government effectiveness, rule of law, and other indicators plausibly associated with the dependent and explanatory variables. Throughout all models, the β_3 coefficient maintains its statistical significance and predicted positive direction. These findings lend support to the expectation that higher fiscal flows to recipient states with high degrees of executive corruption have a positive effect on incumbent parties' competitive advantage (Hypothesis 2).

Table 3.2: Determinants of Governing Parties' Seat Share

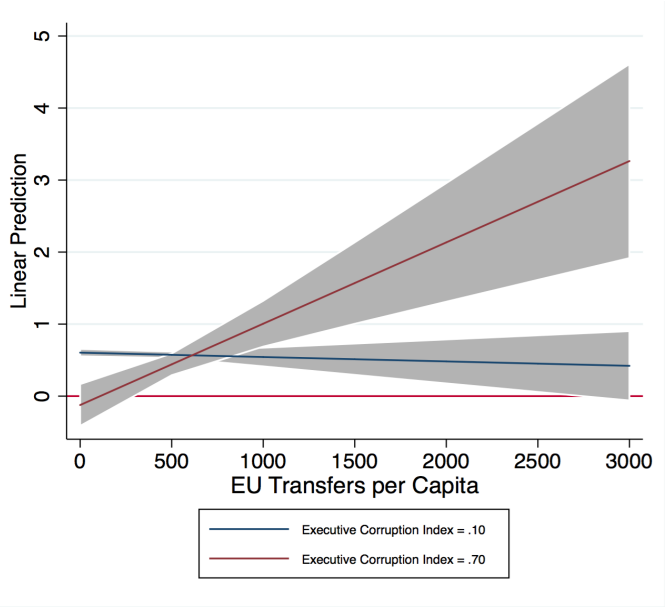
	(1)	(2)	(3)	(4)
EU Transfers per Capita$_{it}$	-0.000^{+}	-0.000^{+}	-0.000^{+}	-0.000*
	(0.000)	(0.000)	(0.000)	(0.000)
ECI$_{it}$	-1.141***	-1.213***	-1.152***	-1.363***
	(0.247)	(0.273)	(0.254)	(0.324)
EU Transfers per Capita$_{it}$ $\times$ ECI$_{it}$	0.002***	0.002**	0.002***	0.002***
	(0.000)	(0.001)	(0.000)	(0.001)
Polity IV$_{it}$		-0.038	-0.037	-0.043
		(0.025)	(0.026)	(0.028)
ln(GDP)$_{it}$		-0.306*	-0.201	-0.264
		(0.138)	(0.119)	(0.155)
Political Stability$_{it}$		-0.003	0.008	-0.019
		(0.049)	(0.051)	(0.054)
Civil Society Index$_{it}$		0.342	0.351	0.288
		(0.235)	(0.255)	(0.241)
Rule of Law$_{it}$		0.126		0.119
		(0.084)		(0.085)
Government Effectiveness$_{it}$		0.010	0.032	0.017
		(0.041)	(0.047)	(0.042)
Equal Resource Distribution$_{it}$		0.192	0.483	0.040
		(1.011)	(1.049)	(1.002)
Democracy Duration$_{it}$			0.004	
			(0.004)	
Democracy Transition$_{it}$				-0.110
				(0.071)
Constant	0.760***	8.432*	5.370^{+}	7.629*
	(0.051)	(3.254)	(2.775)	(3.581)
Observations	110	104	104	104
Countries	26	26	26	26
Country Fixed Effects	✓	✓	✓	✓
Year Fixed Effects	✓	✓	✓	✓
R^2	0.365	0.447	0.425	0.460

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of Governing Parties' Seat Shares in year *t*. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively. All models include country and year fixed effects.

Figure 3.4 focuses on Model 2 to illustrate this relationship. As shown, the marginal effect of higher fiscal flows to corrupt member states has a positive effect on the seat shares of target states' governing parties.

The positive effect of the interacted term on the dependent variable persists when I use the share of EU transfers to government expenditure as an alternative measure

Figure 3.4: Average Marginal Effects of EU Funds (Model 2)



Note: The grey areas indicate 95% confidence intervals.

to capture the value of EU fiscal flows to recipient states. The results, presented in models 5-8 in Table 3.3, show that the coefficient β_3 on the interacted term maintains its statistical significance and positive direction.[15] As shown, while the size of the β_3 coefficient varies slightly across the models, the results remain relatively consistent and highly significant when controlling for other factors expected to be associated with the dependent and explanatory variables. In addition to the interaction term, the rule of law variable also has a positive and significant affect on incumbent parties' seat shares. This effect supports the literature's previous findings of a positive association between the rule of law, aid, and domestic politics.

[15] In the interest of consistency, the specification of these models includes all variables accounted for in models 15.

Table 3.3: Determinants of Governing Parties' Seat Share

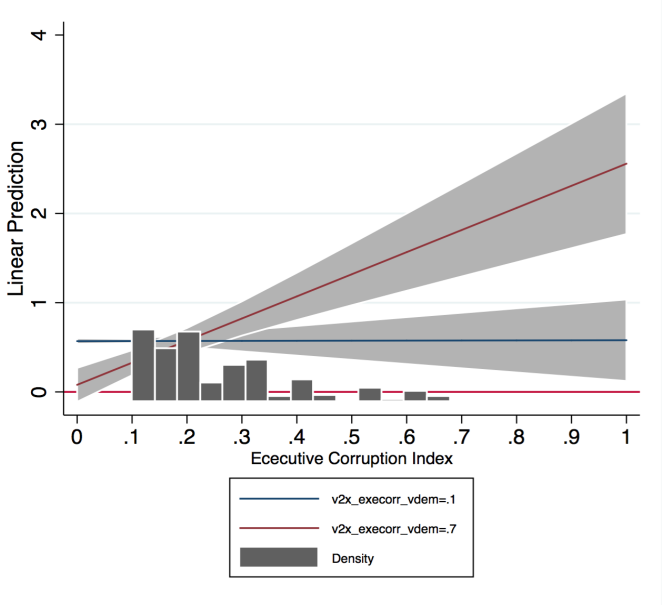
	(5)	(6)	(7)	(8)
EU Transfers$_{it}$	-0.298	-0.401	-0.286	-0.401
	(0.332)	(0.294)	(0.354)	(0.294)
ECI$_{it}$	-0.798***	-0.816***	-0.761***	-0.816***
	(0.188)	(0.163)	(0.153)	(0.163)
EU Transfers$_{it}$ $\times$ ECI$_{it}$	2.915**	4.114***	3.396**	4.114***
	(0.911)	(0.856)	(0.984)	(0.856)
Polity IV$_{it}$		-0.045	-0.042	-0.045
		(0.032)	(0.031)	(0.032)
ln(GDP)$_{it}$		-0.370*	-0.249*	-0.370*
		(0.139)	(0.116)	(0.139)
Political Stability$_{it}$		-0.014	0.005	-0.014
		(0.043)	(0.043)	(0.043)
Civil Society Index$_{it}$		0.153	0.183	0.153
		(0.228)	(0.236)	(0.228)
Rule of Law$_{it}$		0.153*		0.153*
		(0.073)		(0.073)
Government Effectiveness$_{it}$		0.013	0.030	0.013
		(0.046)	(0.049)	(0.046)
Equal Resource Distribution$_{it}$		0.669	0.981	0.669
		(0.930)	(0.973)	(0.930)
Democracy Duration$_{it}$			0.004	0.006
			(0.004)	(0.004)
Constant	0.705***	9.781**	6.249*	9.559**
	(0.040)	(3.269)	(2.567)	(3.195)
Observations	110	104	104	104
Countries	26	26	26	26
Country Fixed Effects	✓	✓	✓	✓
Year Fixed Effects	✓	✓	✓	✓
R^2	0.340	0.450	0.419	0.450

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of Governing Parties' Seat Shares in year *t*. EU Transfers represents the amount of EU transfers to country *i* in year *t* divided by country *i*'s general government final consumption expenditure during year *t*. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^+$ indicate statistical significance levels of .1, 1, 5 and 10 percent, respectively. All models include fixed effects for year and recipient country.

The positive, marginal effect that higher fiscal flows have on the seat shares of corrupt recipients' governing parties is further supported by the graph presented in Figure 3.5. The graph focuses on Model 6 to illustrate the marginal effect of EU transfers on incumbents' seat shares across different levels of executive corruption.

As shown, the marginal effect of EU transfers on incumbents' seat shares increases in recipient states with high levels of executive corruption *(ECI = .7)* while remaining relatively stable in low-corruption recipient states *(ECI = .1)*. Thus, the positive affect of higher fiscal flows on incumbent parties' competitive advantage appears to be a concern only when recipient states' governing parties display high tendencies of executive and political corruption.

Figure 3.5: Average Marginal Effects of EU Funds (Model 6)



Note: The light grey areas indicate 95% confidence intervals. EU transfers measured relative to recipient states' government expenditure.

3.6 Robustness Checks

I place my theoretical expectations under further empirical scrutiny as follows. To test whether higher fiscal flows to corrupt EU states help consolidate governing parties' political advantage relative to opposition forces, I measure the effect of the interacted term on the change in seat shares between government and opposition parties. I present these results in Tables 3.4 and 3.5. The common dependent variable in both tables is,

$$\Delta[(\text{Government Seats})_{it} - (\text{Opposition Seats})_{it}].$$

The main explanatory variable for models 9 and 10 presented in Table 3.4 is the interacted term presented in equation (1). For models 11 and 12 the explanatory variable takes the form expressed in equation (2).

$$[(\text{EU Transfers})_{it}/(\text{Population})_{it}] \times (\text{ECI})_{it} \tag{3.1}$$

$$[(\text{EU Transfers})_{it}/(\text{Gov Spending})_{it}] \times (\text{ECI})_{it}. \tag{3.2}$$

Table 3.4: Determinants of Δ(Seats)Between Governing & Opposition Parties

	(9)	(10)
EU Transfers per Capita$_{it}$	-0.065	-0.053
	(0.065)	(0.081)
ECI$_{it}$	-256.525*	-223.528^{+}
	(123.019)	(121.823)
EU Transfers per Capita$_{it}$ × ECI$_{it}$	0.594*	0.642*
	(0.253)	(0.286)
Polity IV$_{it}$		0.170
		(11.147)
ln(GDP)$_{it}$		-197.133^{+}
		(103.956)
Political Stability$_{it}$		25.418
		(28.990)
Rule of Law $_{it}$		27.494
		(42.988)
Government Effectiveness$_{it}$		-3.004
		(21.306)
Equal Resource Distribution$_{it}$		394.528
		(445.797)
Observations	112	106
Countries	26	26
Country Fixed Effects	✓	✓
Year Fixed Effects	✓	✓
R^2	0.301	0.392

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of Changes in Seats between governing and opposition parties in year *t*. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively. All models include fixed effects for year and recipient country.

As shown, in Tables 3.4 and 3.5 the effect of the interacted term on the difference

in seat shares between governing and opposition parties maintains the predicted positive direction and it is significant at the respectively 5% and 1% level.

Table 3.5: Determinants of Δ(Seats)Between Governing & Opposition Parties

	(11)	(12)
EU Transfers$_{it}$	-154.896	-130.620
	(134.413)	(138.576)
ECI$_{it}$	-228.729*	-185.171*
	(89.393)	(77.118)
EU Transfers$_{it}$ × ECI$_{it}$	1562.370**	1960.490**
	(489.794)	(540.456)
Polity IV$_{it}$		-9.126
		(10.157)
ln(GDP)$_{it}$		-244.792*
		(90.689)
Political Stability$_{it}$		16.672
		(25.762)
Rule of Law$_{it}$		55.274
		(40.528)
Government Effectiveness$_{it}$		6.399
		(23.318)
Equal Resource Distribution$_{it}$		452.524
		(389.546)
Constant	63.193**	5971.473*
	(18.958)	(2480.537)
Observations	112	106
Countries	26	26
Country Fixed Effects	✓	✓
Year Fixed Effects	✓	✓
R^2	0.326	0.461

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of Changes in Seats between governing and opposition parties in year *t*. EU Transfers represents the amount of EU transfers to country *i* in year *t* divided by country *i*'s general government final consumption expenditure during year *t*. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively. All models include fixed effects for year and recipient country.

To further assess the findings' robustness, I also estimate the effect of the interacted term on the incumbent parties *number of seats*. I estimate this relationship by taking into account both different measures of Funds' allocations—that is, *EU funds per capita* (Results presented in Table 3.6) and *EU funds relative to government*

spending (Results presented in Table 3.7). As in earlier tests, the interactive term maintsins its predicted direction and statistical signficance (at the 5% level).

Table 3.6: Determinants of Governing Parties' Seats

	(13)	(14)	(15)	(16)
EU Transfers per Capita$_{it}$	-0.015	0.007	0.009	-0.007
	(0.033)	(0.036)	(0.036)	(0.038)
ECI$_{it}$	-117.253*	-109.234^{+}	-107.604^{+}	-104.526^{+}
	(55.933)	(56.524)	(56.747)	(60.017)
EU Transfers per Capita$_{it}$ $\times$ ECI$_{it}$	0.260*	0.259*	0.252*	0.261*
	(0.117)	(0.116)	(0.117)	(0.123)
Polity IV$_{it}$		6.762	7.046	0.101
		(8.974)	(9.011)	(9.514)
ln(GDP)$_{it}$		-58.451	-73.295^{+}	-68.521
		(36.979)	(41.933)	(51.385)
Equal Resource Distribution$_{it}$			219.124	285.373
			(288.550)	(293.736)
Political Stability$_{it}$				7.985
				(17.695)
Government Effectiveness$_{it}$				-5.459
				(19.996)
Democracy Transition$_{it}$				-4.525
				(31.965)
Observations	112	112	112	106
Countries	26	26	26	26
Country Fixed Effects	✓	✓	✓	✓
Year Fixed Effects	✓	✓	✓	✓
R^2	0.268	0.297	0.303	0.323

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of governing parties' number of seats in year *t*. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively. All models include fixed effects for year and recipient country.

Table 3.7: Determinants of Governing Parties' Seats

	(17)	(18)
EU Transfers$_{it}$	-33.308	-4.734
	(75.294)	(91.733)
ECI$_{it}$	-101.900^{+}	-83.572
	(52.953)	(56.095)
EU Transfers$_{it}$ $\times$ ECI$_{it}$	660.046*	718.562*
	(269.097)	(293.819)
Polity IV$_{it}$		-4.030
		(9.292)
ln(GDP)$_{it}$		-80.485
		(51.198)
Political Stability$_{it}$		7.915
		(17.912)
Government Effectiveness$_{it}$		-1.710
		(20.596)
Equal Resource Distribution$_{it}$		329.064
		(284.343)
Democracy Transition$_{it}$		-1.781
		(30.936)
Observations	112	106
Countries	26	26
Country Fixed Effects	✓	✓
Year Fixed Effects	✓	✓
R^2	0.279	0.357

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of determinants of governing parties' number of seats in year *t*. EU Transfers represents the amount of EU transfers to country *i* in year *t* divided by country *i*'s general government final consumption expenditure during year *t*. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively. All models include fixed effects for year and recipient country.

Finally, I assess whether fiscal transfers have a greater influence on governing parties' political payoffs in transitioning versus established democracies. This test is driven, as seen in Figures 3.2 & 3.3, by patterns of variation in EU allocations and degree of executive corruption within the EU's political space. Therefore, to test whether the effect of the interacted term on the seat shares of recipient states' governing parties varies across member states with distinct democratic experiences, I separate the countries in two groups: the transitioning and non-transitioning democracies. The transitioning democracies include all post-socialist member states

of the EU.[16] The non-transitioning cluster includes all member states that have not undergone a change in political regime in the post-1990s period. This variable is coded 1 for the post-socialist states and 0 for the non-transitioning EU member states. The results, presented in Table 3.8, show that the coefficients on the interacted term preserve their expected positive direction and statistical significance in the cases of both transitioning and non-transitioning states. In the case of the Western, non-transitioning democracies, the degree of significance declines slightly, although it still persists at the 1% level. These findings suggest that despite a recipient country's democratic experience, higher fiscal inflows have a positive impact on incumbents' vote shares, as long as the governing parties of recipient states demonstrate higher levels of executive and political corruption.

[16]The countries include Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

Table 3.8: Determinants of Majority's Seat Share (By Transitioning Criteria)

	(Transitioning)	(Non-Transitioning)
EU Transfers per Capita$_{it}$	-0.000^{+}	-0.000
	(0.000)	(0.000)
ECI$_{it}$	-1.196***	-1.283***
	(0.228)	(0.283)
EU Transfers per Capita$_{it}$ $\times$ ECI$_{it}$	0.002**	0.002*
	(0.000)	(0.001)
Polity IV$_{it}$	-0.108**	0.030
	(0.028)	(0.049)
ln(GDP)$_{it}$	-0.342*	-0.071
	(0.139)	(0.222)
Political Stability$_{it}$	-0.021	0.093
	(0.068)	(0.078)
Party Age $_{it}$	0.003^{+}	-0.001
	(0.001)	(0.001)
Civil Society Index$_{it}$	0.317	-0.506
	(0.317)	(0.664)
Equal Resource Distribution$_{it}$	3.580**	-2.676^{+}
	(0.892)	(1.417)
Observations	46	58
Countries	11	15
Country Fixed Effects	✓	✓
Year Fixed Effects	✓	✓
R^2	0.797	0.537

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of the determinants of Seat Shares during year *t* in the EU's Transitioning and Non-Transitioning member states. Cluster-robust standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively. All models include fixed effects for year and recipient country.

3.7 Conclusions

One of the EU's primary objectives is to narrow the wealth gap between its member states and promote economic development across the region. Fiscal transfers made through the EU's fiscal budget serve as a key mechanism for achieving these outcomes. Designed to promote economic and policy initiatives that boost recipient states' economic performance, the funds' long-term objective is to promote recipient states' institutional effectiveness and advance the EU's democratic values across

the region. These expectations are, however, consistently challenged. Distinct patterns of economic growth among EU states point to continued economic disparities between the EU's developed and developing states, including Bulgaria, Romania, and other post-socialist members. In parallel with these developments, the rise of political corruption and authoritarian tendencies of governing parties in several EU states, particularly Hungary and Poland, further challenge the success of EU fiscal allocations in enhancing institutional performance and reinforcing democratic norms.

These developments raise important questions about the ways in which EU fiscal allocations impact the domestic politics of recipient states. This paper has sought to advance our understanding of this impact. In examining the link between EU transfers, political corruption, and the electoral outcomes of recipient states' incumbent parties, this paper has examined whether fiscal funds allocated by the EU to its member states deliver an electoral advantage to corrupt incumbent parties. Whereas previous works have examined the effect of EU funds on political corruption in recipient states, my approach examines the impact of funds on incumbent parties' political and electoral outcomes, taking into account the degree of executive corruption in recipient states. By analyzing new data on EU fiscal allocations over the period 2000-2015, I have tested and confirmed my novel theory that fiscal flows to corrupt EU states deliver political latitude and an electoral advantage to recipient states' governing parties.

These findings are relevant for purposes of both democratic theory and distributive policy. The aid literature finds that corrupt governments with underperforming institutions are equally likely to receive the same amounts of aid as their less corrupt counterparts (Alesina and Weder 2002). Understanding whether funds allocated to the EU's highly corrupt member states serve to promote or jeopardize the EU's economic interests and democratic values is essential to the formulation of EU-level anticorruption policies.

The implication appears to be that recalibrating the EU's allocation calculus to corrupt member states could undercut the political momentum of corrupt governing

parties. Limiting the funds to corrupt member states would constrain governing parties' ability to utilize the EU transfers as a resource pool for advancing personal, political, and policy objectives that garner voters' electoral support. Building on these findings, further research should aim to test the link between EU funds and political corruption to governing parties' political behavior, including authoritarian and populist tendencies. Examining the range of these influences will enhance our understanding of continued disparities in patterns of economic and democratic developments across EU member states. By providing insight into the source of challenges faced by the EU and its member states, these findings would serve as a foundation for policy remedies to control their proliferation.

CHAPTER IV

IMF: International Migration Fund

4.1 Introduction

[1] Why do international organizations (IOs) favor some countries over others? The role of IOs in facilitating interstate cooperation is well documented. Their perceived impartiality, expertise, and organizational capacity lend them considerable influence in both international and domestic politics (Abbott and Snidal 1998; Barnett and Finnemore 1999; Finnemore and Sikkink 1998; Krasner 1982). Yet IOs also operate in the shadow of state power. When the interests of states diverge from the policy goals of IOs, powerful states may seek to "capture" the functions of the organization. Indeed, the International Monetary Fund (IMF)—one of the core Bretton Woods institutions—is frequently argued to be an agent of its most powerful shareholders (e.g., Copelovitch 2010b; Dreher and Jensen 2007; Dreher et al. 2009; Oatley and Yackee 2004; Stone 2004; 2008; Thacker 1999). This has led some borrowing countries receiving better (or worse) treatment from the IMF depending on the strategic and special interests of creditor states. Such behavior is important to understand given that favoritism is likely to compromise the independence and legitimacy that constitute IO influence and authority (Barnett and Finnemore 2004; Stone 2011, p. 1-2). Using the IMF as a point of focus, this article aims to better explain what drives differences in treatment from IOs.

We complement previous research that underscores the role of state interests,

[1] This chapter is co-authored with Merih Angin and Adrian J. Shin.

but we instead highlight international migration as a concern that governs the decision-making calculus of the IMF's major shareholders. Specifically, we argue that when IMF recipients are major migrant-sending countries with large diasporas in G5 states, they are more likely to receive larger loans and less stringent forms of conditionality than otherwise. We propose the following causal mechanism: stringent loan conditions exacerbate short-term economic distress in the recipient country, which in turn encourages more citizens to migrate to countries where their co-ethnics reside. Accordingly, major IMF donors that host a large number of nationals from the recipient country face disproportionately high levels of migration pressure when the IMF imposes relatively demanding loan conditions. Since citizens of major IMF shareholders generally oppose immigration inflows—especially those from sending countries under financial distress—policymakers of IMF shareholder states are likely to use their influence within the IMF to assuage migration pressure.

In assessing our central argument, this article focuses on three particular aspects of IMF program design: (1) the size of loan; (2) the stringency of conditions attached to IMF loans; and (3) the number of condition waivers granted to the borrowing country during program implementation. To test our theoretical expectation that migration concerns drive the conditionality of IMF programs, we analyze the policy space from 1978 to 2013 by utilizing a new dataset on IMF conditionality from Kentikelenis et al. (2016). This comprehensive dataset allows us to disaggregate IMF conditionality by targeted policy types—a relatively new practice in the literature. We find support for our theoretical expectations that IMF loan recipients with large diasporas in the G5 countries receive larger loans and more favorable conditions that can minimize short-term adjustment costs. This is especially the case when the recipient country experiences negative or slow economic growth. We further find that European IMF shareholders focus primarily on loan size to lessen migration pressure, while the US reduces labor and fiscal conditions to meet the same goal.

While previous studies of IMF lending focused on the politics of special interests in the G5 countries (Breen 2014; Copelovitch 2010a; b), our emphasis on migration pressure highlights how domestic concerns over migration shape the preferences of

G5 policymakers, which in turn influence the Fund's lending decisions. In other words, our argument demonstrates that the G5 countries use their influence at the Fund not only to appease their powerful domestic interest groups but also to preempt voter anxiety about economic globalization. In this article, we focus on international migration, as it is arguably the most unpleasant aspect of international economic integration for many voters in the G5 countries. Our approach opens up a new venue of research in the literature on IMF lending, specifically how popular politics within the G5 states shapes the global governance strategy of a powerful international organization.[2]

We organize our article in the following manner. We begin with a discussion of IMF conditionality and then formulate a series of testable hypotheses in line with the main argument. We use the case of Romania—one of the largest migrant-sending states that received a sizable loan from the Fund in 2009—to illustrate how Romanian immigration patterns have shaped the conditionality of its IMF program. We proceed by detailing the research design used to test each of our hypotheses. Finally, we discuss our findings and their implications for both the international political economy and international migration literature. These implications suggest several avenues of future research on the link between migration and the conditionality of IMF loan programs.

4.2 G5 Countries and the IMF: International Migration Fund

4.2.1 Theoretical Perspectives

Why does the IMF favor some countries over others? Given the enormous economic, social, and political implications of IMF lending, conditionality has been a popular academic research topic and the subject of a heated policy debate. At the center of the Fund's influence lies the Executive Board (EB).[3] The EB, chaired

[2]Previous studies have explored how migration pressure shapes the political economy of sovereign debt (Bernhard and Leblang 2016) and foreign aid flows (Bermeo and Leblang 2015).

[3]Executive boards of international organizations generally serve four primary roles—performance police, strategic thinker, political counterweight, and democratic forum (Martinez-Diaz

by the managing director of the Fund, consists of 24 executive directors. The G5 countries—the five largest contributors to the IMF (i.e., the US, Japan, Germany, the UK, and France)—appoint their own Executive Directors. China, Saudi Arabia, and Russia also have their own seats, while the rest of the seats are elected by separate constituencies formed by the remaining member states. Executive directors are expected to be loyal to the IMF, not to their home country. Yet this has proven more of a principle than a hard-and-fast rule since some countries, such as "the United States and the United Kingdom, have not consistently abided by this model" (Momani 2010, p. 165). In fact, the EB seating arrangements provide the G5 countries with substantial power on the Board, which they use to advance their own national interests.

Given the G5 seats on the EB and their unrivaled voting power, many studies of IMF lending have adopted a state-centric approach. These studies emphasize the preferences of the powerful G5 states, particularly the US, in explaining the variation in IMF conditionality. While some argue that countries of political importance, measured by memberships (permanent and non-permanent) of the United Nations Security Council, receive softer conditionality (Dreher et al. 2015), others highlight US influence via "informal governance" within the Fund (Stone 2008). In addition, powerful domestic interest groups of the G5 states often sway the Fund's lending decisions to protect their economic interests in recipient countries (Breen 2014). In this regard, several high-profile IMF lending cases—such as those involving Russia, Ukraine, Argentina, and Turkey—are cited as instances where US pressure for lax conditionality caused IMF programs to fail eventually (Stone 2008, 617).[4] While other IOs have worked to resolve the tension between national interests and

2009, p. 86). The IMF's Executive Board is generally seen as a strategic thinker and a democratic forum while it is less equipped for acting as a performance police (Martinez-Diaz 2009, p. 91).

[4]US pressure was particularly visible in the case of Russia, where the Unites States pushed for a generous lending package for Russia (Gould-Davies and Woods 1999, 10). The program included a Special Drawing Right (SDR) of 6.9 billion under an Extended Fund Facility (EFF) for Russia on March 26, 1996, by the Executive Board, which was at that time the largest EFF in IMF history (IMF 2018a). This was the case even as the IMF staff "did not think that the 1998 loan to Russia made any sense... [y]et the IMF is a hierarchical organization, and the people at the top actually believed that the program would work" (Stiglitz 2003, 130).

international objectives by strengthening the independence and accountability of decision-making bodies, the tension between national policymakers and the Fund's technocrats has persisted (Woods and Lombardi 2005).

We build on this literature of G5 influence within the IMF to argue that the G5 countries use the Fund's resources to meet their immigration policy objectives. Assuming that G5 policymakers are aware of the relationship between short-term adjustment costs and migration patterns, G5 countries do not necessarily care about the long-term success of an IMF program when the target country is a major migrant-sending state. Instead, incumbents in G5 countries should be more concerned about the electoral and political implications of potential immigration inflows into their countries if the Fund fails to reduce short-term economic distress in the recipient country's economy.[5]

In this way, international migration can help elucidate IMF policy stances that are otherwise puzzling. For instance, regarding emigration from Eastern to Western Europe, the Fund explicitly expressed in 2016 that "policies in sending countries should focus on creating an environment that encourages potential emigrants to stay" (Atoyan et al. 2016, p. 30). The Fund also emphasized the need to promote return migration, to institute active labor market (ALM) policies within sending states, and to direct EU structural funds in order to better raise labor productivity and incomes in Eastern European economies (Atoyan et al. 2016, p. 31-34). Here, G5 policymaker concerns over migration can explain why the IMF—an organization typically viewed as an advocate of free factor flows and limited government intervention—would nevertheless oppose the movement of workers across international borders.

Decision-making in the IMF starts as early as the phase during which the staff prepare proposals. Before a proposal reaches the EB for approval, informal communications between national authorities, Board representatives, staff, and manage-

[5]Numerous studies examine the roots of anti-immigration attitudes in wealthy, advanced democracies, and the implications for immigration policymaking. For instance, see Freeman (1995); Hainmueller and Hiscox (2007; 2010); Scheve and Slaughter (2001); Zolberg (1989). For the influence of anti-immigrant right-wing populists, see Messina (2002); Swank and Betz (2003). For labor unions, see Haus (2002); Briggs (1984; 2001).

ment take place to set the scope for bargaining and negotiation of proposal details. After reaching the EB, it is unlikely that the proposal will be rewritten (Woods and Lombardi 2005). In this regard, following the informal governance approach, we expect G5 Executive Directors to engage in informal negotiations behind closed doors to shape IMF programs in ways that create incentives for potential migrants to remain in their home country.

G5 Executive Directors can ensure this by: (1) securing a large loan for the borrowing country, which could increase potential migrants' opportunity cost of emigration in the foreseeable future; (2) attaching less stringent labor or fiscal conditions to programs, which are typically perceived to exacerbate the short-term adjustment costs of IMF programs; or (3) granting condition waivers to the recipient country during program implementation, thus ensuring that loan disbursements will be released regardless of country performance. These measures can be effective in reducing migration pressure by shaping the future expectations of potential migrants, as well as by their actual economic impacts in the target country.

Labor conditions are known to be one of the most politically contentious types of IMF conditionality, which explains why earlier studies with a disaggregated approach examined the determinants of labor market conditions in IMF programs (Rickard and Caraway 2014). These conditions require implementation of reforms of the borrowing country's domestic labor market, which have direct effects on employment, wages, and social benefits, such as wage freezes and pension reform (Caraway et al. 2012). The causal mechanism we expect to observe is straightforward: if workers are losing jobs as a result of the implementation of a labor market condition, they might have to consider migrating to a wealthier country offering more job opportunities. In addition, potential migrants may use labor market conditions set by the Fund as an indicator of their economic prospect in the home country. Imposing fiscal conditions will also have an impact on the borrowing country's economy, which will affect the daily lives of its citizens. However, since labor conditions have a more direct bite, we expect them to have a stronger link with potential emigration.

The Fund's conditionality can also shape the target country's behavior toward emigration. In exchange for a better deal from the Fund, the government of the recipient country may take measures to reduce emigration, especially when it is a large migrant-sending state for the G5 countries. The Fund can deploy several types of IMF conditionality that differ in how specific they are, what they include, and their monitoring requirements (Copelovitch 2010b). The measures that a country is required to take before the EB approves a loan or completes a review are called prior actions (PAs). On the other hand, structural benchmarks, which are qualitative in nature, are conditions considered significant in achieving program goals and are designed as "markers" to assess the implementation of an IMF program during a review (IMF 2018b).

The Fund also utilizes several indicators to assess whether the program functions as provisioned. Performance criteria are often constructed on the basis of numeric variables, which are called quantitative performance criteria (QPC). In case of a failure to comply with any performance criterion, an approval of the IMF Executive Board is needed to maintain the program and be able to access future loan disbursements or tranches'.' Structural performance criteria (SPC) are not numeric indicators; they reflect changes in structural circumstances such as entry of a law into effect, or realization of an administrative operation or decision. It is obligatory to comply with both performance criteria for successful completion of program reviews. As for indicative targets, they are used for monitoring variables that are critical for fulfillment of a program.

Regardless of the precise criteria, we posit that more favorable IMF programs will be associated with recipient countries where the threat of migration to major IMF shareholder countries is greatest. Importantly, this argument requires determining where the migrants of recipient countries are likely to move. The international migration literature supports that migrants tend to relocate in destination countries where their co-ethnics and family members already reside (Portes and Böröcz 1989; Massey et al. 2005). This is because existing migrant networks provide information about the host country to potential migrants, as well as help migrants integrate into

the society and economy of host countries (Boyd 1989; Bailey and Waldinger 1991; Eric and Ooka 2006). With lower transaction costs and greater access to information, the threat of future migration should be highest where there is already a large community of migrants from the IMF recipient country living in the destination country. Accordingly, we offer the following hypotheses with respect to loan size, conditionality, and condition waivers:

$\boldsymbol{H}_1$*: The IMF grants larger loans to target countries with larger diasporas in the G5 countries.*

$\boldsymbol{H}_2$*: The IMF grants less stringent conditions to target countries with larger diasporas in the G5 countries.*

$\boldsymbol{H}_3$*: The IMF grants more waivers to target countries with larger diasporas in the G5 countries.*

Since economic conditions of target countries affect the degree of migration pressure, we also test whether there is more empirical support for these hypotheses when the rate of economic growth is slow or negative. Further discussion of our empirical strategies and the precise operationalization of the hypotheses are provided in the research design section.

Although our state-centric approach assumes that G5 countries wield enormous control over the Fund and its Board, the migration angle of our argument does not necessarily conflict with the public-choice approach of the IMF lending literature in terms of the observable implications. From a non-realpolitik point of view, "bureaucratic politics," rather than the interests of the major shareholders, are the main political factors shaping the Fund's lending policies (Angin 2016; Copelovitch 2010b). In this regard, the IMF staff constitute a highly independent actor while the Fund staff adopt, interpret, and apply their own norms (Chwieroth 2008, 155) and have intellectual dominance in the design of loan conditionality, writing of

surveillance reports, and provision of technical and policy advice (Momani 2007, 23). The IMF, as a bureaucratic entity, may view increased emigration from the target country as a major failure of its program. Since emigration from the target country is often the most sensationalized consequence and the most visible sign of a short-term program failure, the IMF staff have shared interests with the G5 countries when the target country poses substantial migration pressure for the major IMF shareholders.

4.2.2 Romania and the IMF: An Illustrative Case

The migration dynamics in IMF lending are especially evident in the case of Romania, one of the largest migrant-sending countries in Europe and a recipient of one of the IMF's largest Stand-By-Arrangements (SBAs). The Romanian economy suffered tremendous economic losses during its phase of democratization, accompanied by institutional restructuring and neoliberal policies. With more than 3.5 million jobs lost and a decline in the employed population of 44% (Focus Migration 2017), Romanian citizens turned to labor migration as an economic escape. As of 2017, the number of Romanian migrants working abroad, particularly in France, Germany, Italy, and other Western democracies reached 3.4 million, only 1.2 million of which were legal immigrants (Focus Migration 2017).

Romanian immigration triggered political and economic agitation in their host states at both national and regional levels (Culic 2008; Mai 2010). As Romanian immigrants became associated with irregular unskilled laborers (Diminescu 2004), undesired inflows of the historically marginalized Romani (Aradau 2009), and international trafficking of women and children (Aradau 2008; Mai 2010), wealthy Western states struggled to curb Romanian immigration inflows by imposing temporary measures to keep Romanians from entering their labor markets (Focus Migration 2017).

While these wealthy democracies took measures to keep Romanian immigration at bay, the IMF was actively extending financial assistance to Romania. Facing domestic and external imbalances as well as asset bubbles and structural fiscal

deficits, Romania's short-lived economic boom ended prior to the Great Recession of 2008. To address the severity of its problems, Romania turned to the Fund to request an SBA to restore market confidence and achieve fiscal sustainability. The Fund approved the SBA in May 2009, with an exceptionally large disbursement of 11.443 billion SDR—equivalent to 1,110.8 percent of Romania's quota. The loan package was considered "one of the largest in Fund's history" at the time, with co-financing from the EU, the World Bank, and the European Bank for Reconstruction and Development (IMF 2012).

When the group of international lenders, led by the IMF, granted Romania a large loan of 20 billion euros ($27 billion), the country's application for accession into the EU border-free Schengen area came to a stop. Rooted in economic and migration concerns, the Schengen rejection was perceived by Romania as self-serving of the interests of France and her recruited ally, Germany—not coincidentally, two of the European countries with the largest Romanian diasporas. In its analysis of the decision's outcome, *Romania Libera*, a leading Romanian newspaper, pointed in no ambiguous terms to the border interests of France and its allies as the hidden, causal factors driving Romania's Schengen rejection (Serbanescu 2011):[6]

> *Romania's expected but failed accession to the Schengen space was a remarkable one, and it was not typical of the banalities and demagogy so usual in the European Union. Only few things were told, but even omissions were meaningful, although the real reasons were hidden under the carpet. The champion of partially told truths and omissions was Mr Sarkozy's France. France, which has been referred to as Romania's "elder sister" for decades, taught a lesson to its younger sister. France accused Romania of not being ready to be responsible for the commercial security of EU's eastern border, which is true from the point of view of West European countries.*

In addition, the issue of Moldovans in Romania was a source of contention

[6]This article, published on March 2, 2011, notes the hidden link between Romania's delayed entry into the Schengen area, and France's interests.
Retrieved from `http://infoweb.newsbank.com/resources/doc/nb/news/135CE3FF2E4AEBF0?p=AWNB`

between France and Romania. France was particularly concerned about Moldovans who acquired Romanian citizenship, and potential migration inflows of these Romanians of Moldovan descent into France. Given the widespread societal perception that immigrants from the southeast of the European Union were more likely to commit crimes, France found the Romanian government's citizenship policy toward Moldovans as a threat to the commercial security of the EU's eastern border.

France's apprehension about Moldovan-Romanians, however, was likely motivated by political pressure from the French electorate, not by reliable statistics or objective studies (Serbanescu 2011).

> *Yet, France omitted to say that the citizens of the Republic of Moldova who had wanted to leave their country and to look for jobs in the European Union had already done that, and were already in Paris, Rome, or Berlin. When it talks about the fact that three-quarters of the immigrants who commit crimes in the Schengen space come from the southeast of the European Union, France omits to say that the problem is not directly related to Romania, because Romania has not been responsible for protecting the Schengen space border from illegal immigrants till now.*

Furthermore, the French policy toward the Romani reflects the French electorate's pervasive concerns over immigration. In August 2010, the French government cleared 300—nearly half of the country's total—of what they argued to be unauthorized camps" built by the Romani on council-owned land in Saint-Etienne. Recent Romani immigrants from Romania and Bulgaria used the camps as makeshift homes. France justified the closing of the camps on grounds of "illegal trafficking, of profoundly shocking living standards, of exploitation of children for begging, of prostitution and crime" (France Starts Removing Roma Camps 2010). Human rights groups, however, considered it a calculated measure to win the support of right-wing voters, particularly given President Sarkozy's declining poll ratings (France Starts Removing Roma Camps 2010).

Domestic and international groups raised further concerns when the French gov-

ernment pushed forward with efforts to repatriate Romani immigrants by paying an amount of 300 euros and an additional 100 euros per child to every Romani immigrant who agreed to return to Romania. The measures triggered fierce criticisms by members of the UN's Committee on the Elimination of Racial Discrimination who argued that racism and xenophobia were undergoing a "significant resurgence" in France (France Sends Roma Gypsies Back to Romania 2010). The French efforts in the Romani repatriation were only met with reluctant compliance by the Romanian president Traian Basescu, who argued that while Romania believed in the "right of every Romanian citizen to travel without restrictions within the EU," the Romanian government was prepared to assist France in implementing the repatriation scheme by sending their police troops to France (France Sends Roma Gypsies Back to Romania 2010). France's repatriation of 10,000 Romani people in year 2009 alone encouraged Germany, Italy, Denmark, and Sweden to follow suit.

The French-Romanian case demonstrates the inevitable link between money and migration. Though the Fund's G5 countries were willing to open their financial doors to ameliorate Romania's financial difficulties, the same countries—particularly the ones in Europe—were closing their borders and labor markets to Romanian citizens seeking economic opportunities abroad. The concurrence of the Fund's generous loan package and Romania's delayed entry into the Schengen area illustrates the G5's attempt to resolve the Romanian crisis outside their borders. The case of Romania thus exemplifies our argument well. When migration pressures are present, the IMF's major shareholders can use their influence at the Fund to ease the adjustment of IMF programs and, in turn, curb immigration inflows into their own countries. To assess the connection between migration pressures and IMF lending more universally, the next section details the data and empirical strategy used to test each of our hypotheses.

4.3 Research Design

To test whether concerns about migration create more favorable IMF programs,

we utilize new data from Kentikelenis, Stubbs, and King (2016) on IMF conditionality. Due to the lack of a comprehensive index of Fund structural conditionality covering a long period of time, scholars used to rely on a set of statistics to measure conditionality (Goldstein 2000). However, in January 2009 a previously internal IMF database, MONA (the Monitoring of Fund Arrangements), was released on the website of the Fund upon recommendation by the Independent Evaluation Office of the IMF, approved by the Board. MONA is a collection of comparable data on the economic objectives and results of arrangements supported by the IMF. As this used to be the only database providing a comprehensive view of all types of structural conditions by including prior actions, performance criteria, conditions for completion of program reviews and structural benchmarks, it has been widely used by scholars to analyze IMF conditionality quantitatively. However, the MONA database has a significant number of inconsistencies, which have been repaired by the novel data of Kentikelenis, Stubbs, and King (2016). Their data are sourced from internal IMF documents—including IMF staff reports, the Letters of Intent (LoI) of national governments, and Memoranda of Economic and Financial Policies (MEFPs)—that collectively contain detailed information on IMF program approvals, conditionality, and policy implementation.[7] This allows us to analyze the Fund's behavior at different phases of an IMF program. Specifically, we assess the favorability of IMF lending along three different metrics: (1) loan size; (2) types of policy conditions imposed; and (3) number of condition waivers granted by the IMF.

While data from Kentikelenis et al. (2016) contains observations for each individual policy condition across all IMF recipient countries, we modify their dataset by treating IMF program as our unit of analysis. To do this, data on individual conditions are synthesized into a single observation for each IMF program. In some cases, a recipient country enters simultaneously into two different lending arrangements that must be separately approved by the Fund's EB. This typically

[7] As Kentikelenis et al. 2016 (p. 39-40) describe, the issue area of IMF conditions (e.g., labor conditions, fiscal conditions, etc.) are manually coded by two researchers and then cross-referenced. For those interested, every condition in the dataset is referenced to specific text within the source document.

includes situations where IMF beneficiaries enter into two different lending facilities (e.g., SBAs, EFFs, etc.), which are subject to different terms of access and repayment. We treat such co-existing arrangements as under the same umbrella program since they are approved concomitantly. However, multiple IMF loan arrangements for the same country and within the same year are treated as separate observations, so long as such arrangements are approved by the EB at different dates. Our sample covers a total of 663 IMF programs and 114 different recipient states, spanning from 1978 to 2013.[8]

4.3.1 Dependent Variables

The empirical analysis focuses on three outcomes of interest. Our first dependent variable is the size of the total loan disbursement (in millions SDR) divided by the total population of the recipient country. Normalizing loan size by population accounts for the fact that larger countries naturally require greater injections of capital in order for IMF programs to be effective. We also take the natural log of this value to account for the diminishing marginal effects of IMF finance. For programs with multiple loan arrangements, we simply sum together the size of the individual loans. It is important to note that loan amounts are agreed ex ante between the Fund's EB and the recipient country at the onset of a program. Thus, our measure avoids detecting the effects of loan disbursement size on levels of emigration out of the recipient country, which could bias the main estimates.

Scholars have used loan per quota to account for the country's influence or "entitlement" within the Fund (Stone 2008; Copelovitch 2010b). However, we focus primarily on loan size *per capita* since we want to measure the loan amount that would reduce short-term migration pressure, regardless of the degree of "entitlement." We agree that loan *per quota* is a more appropriate measure of loan size for studies linking IMF lending to other geopolitical issues, especially when scholars want to investigate loan size in reference to multiple economic indicators of a borrowing country. The IMF quota formula is a weighted average of GDP (weight of 50

[8]Complete summary statistics are provided in Table D.1 of the Appendix.

percent), openness (30 percent), economic variability (15 percent), and international reserves (5 percent). Since migration is a population dynamic, we replace this quota formula with a borrowing country's entire population. Nevertheless, we later use loan per quota as an alternative measure of loan size. We provide the results and further discussion in Robustness Checks.

We next analyze whether migration pressures affect the types of policy reforms imposed by the Fund. Policy conditions are explicitly defined in a recipient country's MEFP, which is attached to that country's Letter of Intent at the onset of an IMF program. IMF conditionality can encompass a broad array of policy reforms, meaning we have the option to analyze how migrant pressures affect the stringency of IMF conditionality across a range of issue areas. Our analysis, however, centers specifically on labor issues, where IMF conditionality is expected to be most lax.[9] While adjusting wages downward may increase the long-term competitiveness of the recipient country's economy, the short-term costs of such measures are likely to incentivize emigration out of the country, thus making policymakers more reluctant to impose labor conditions in the first place. To test this argument, the dependent variable we use is the total number of labor conditions imposed during a country's IMF program. Conditions are coded as relating to labor policy where they include enacting limits on wages and employment, reforming pension systems, or modifying social security institutions.[10] Some actual examples include to "develop a satisfactory action plan for reforming the pension regimes for the police and the military" (Peru 2004), and to "adopt legislation to reduce the minimum wage for long-term unemployed" (Greece 2012). These data are directly sourced and coded by Kentikelenis et al. (2016) from the MEFPs of recipient countries. For these models, we also control for the total number of all IMF policy conditions to ensure our results are not driven by program size.

[9] We also show results for fiscal policy conditions, which can have similar effects on the recipient country's labor market and rate of emigration.

[10] Importantly, Kentikelenis et al.'s (2016) coding of labor conditions excludes conditions that are beneficial to labor. Other types of reforms that are tangential to labor—for instance, payment of wage arrears (fiscal policy), social safety nets (redistribution policy), and income taxes—are coded as different issue areas.

Lastly, we look at whether recipient countries posing a threat to future migration are given more condition waivers during program implementation. Condition waivers are granted by the Fund's EB in the event that a "hard" condition of an IMF program—such as a prior action (PA), quantitative performance criterion (QPC), or structural performance criterion (SPC)—is not fully met. Condition waivers can be crucial for recipient countries, as future loan disbursements, or "tranches," cannot be disbursed following unmet conditions unless those conditions are formally waived. Though the purpose of condition waivers is ostensibly to maintain policy flexibility, waivers may also be granted as political favors to recipient countries (Pop-Eleches 2009). Our third dependent variable is therefore the total count of program waivers granted for an IMF program. In contrast to loan size or *ex ante* conditionality, attention to condition waivers allows us to observe IMF behavior during the implementation of policy reforms. This is important since the Fund may still favor certain loan recipients over others via policy *flexibility*, even if the initially prescribed policy reforms are relatively harsh. While nearly half of IMF programs include no condition waivers, other recipient countries have a majority of their conditions waived at least once during program implementation. In extreme cases, countries obtain more condition waivers than the total number of policy conditions.[11]

4.3.2 Independent Variables

Our theory posits that more favorable IMF programs will be associated with recipient countries where the threat of migration to major IMF shareholder countries is greatest. Past research supports that migrants tend to relocate in destination countries where their co-ethnics and family members already reside, since existing diasporas can lower the transactions costs of migration and provide potential migrants greater access to information (Boyd 1989; Portes and Böröcz 1989; Bailey and Waldinger 1991; Massey et al. 2005; Eric and Ooka 2006). For this reason, our

[11] Countries may have a single condition waived more than once. Therefore, this makes it possible for countries to obtain more condition waivers than the total number of conditions.

main independent variable is the existing stock of migrants from the recipient country living in the IMF's five largest shareholder countries. In terms of IMF vote shares, these countries include the United States, Japan, Germany, France, and the United Kingdom.

In line with the existing migration literature (Fitzgerald et al. 2014), we believe the stock variable is the single most important determinant of migration pressure, especially from the perspective of G5 policymakers. While migrant stock profiles vary substantially across major migrant-receiving countries, they show relatively stable trends over time within each country. For instance, once a sizable migrant network is established, its growth follows an upward trend over time. While a migrant-receiving country's immigration policy and economic conditions certainly affect the growth rate of a migrant network, it is inherently self-perpetuating.[12] This unusually path-dependent nature of migrant networks ameliorates some concerns about omitted variable bias as well as endogeneity between IMF lending, migrant stocks, and migrant flows.

Migrant stock data come from the UN Global Migration Database. Because these data are available at only 10-year intervals, we interpolate values for migrant stocks using the average annual rate of change occurring over each ten-year period. Although we are well-aware of the pitfalls of this data source in terms of actual precision, we argue that this lack of precision does not pose serious problems in testing our hypotheses. To see why, we emphasize that the numbers in the dataset are actually computed based on the national statistics of the G5 countries. Since G5 policymakers rely on the same data source in policymaking, this is the most appropriate migration dataset to operationalize the decision calculus of G5 policymakers. In other words, G5 policymakers are unlikely to have access to precise data on migrant stocks within their own countries. Instead, it is more likely

[12] The growth of migration can be expected to eventually level off over time. For instance, Mexican migration to the US has slowed over the past decade, despite a large Mexican diaspora present in the US. We find this less of a problem, however, given the time period of our sample. From the 1970s and then into the post Cold War period, migration flows have been largely predictable and increasing, even following the global financial crisis (OECD 2013). The "self-perpetuating" assumption might become more of a problem in the future given government push-back against open borders and the natural decline of older migration flows as emerging economies continue to develop.

that they rely on the same source used in our empirical analysis.

To measure the G5 countries' migration concerns in IMF lending, we take two approaches. The first approach considers the collective influence of G5 countries using a composite measure of migrant stocks from the recipient country. This measure is constructed in two steps. First, a country's stock of migrants from recipient country j is weighted by the destination country's vote share in the IMF. For instance, the stock of j migrants living in the US as of 2017 is weighted by 16.53%, while the stock of j migrants living in the UK is weighted by 4.04%. After doing this for each G5 country, the weighted stocks are then added together. The composite measure, *G5 Migrants*, is formally:

$$G5\ Migrants = \sum_{i} Stock_{j,i} \times Vote\ Share_{i}$$

where i denotes the G5 country and $Stock_{j,i}$ denotes the stock of migrants from the recipient country living in country i. This measure therefore places greater weight on the threat of migration to the United States—the IMF's largest shareholder—than the threat of migration to shareholders with smaller voting shares.

Our second approach instead considers the threat of migration to G5 countries individually. For these models, we simply disaggregate migrant stocks into five separate and unweighted independent variables (i.e. one for each G5 country). This allows us to explore whether the threat of migration to certain G5 countries affects IMF lending more than the threat of migration to other G5 countries. Moreover, different G5 countries may ease the burden on IMF recipient countries through different means (e.g., increasing the loan size, reducing labor policy conditions, granting condition waivers). For both the composite measure and country-level measures of migrant stock, we normalize migrant stocks by the population of recipient country j. This ensures our results are driven by migration pressures rather than the size of the recipient country.

The conditional hypothesis posits that the threat of migration should be more pronounced where the growth prospects of the recipient country are particularly

poor. This is because low economic growth can act as an additional "push factor" that encourages individuals to seek work and better economic conditions abroad. Under such circumstances, G5 countries are likely to be especially averse to tightening the strings on IMF programs. Conversely, G5 countries may perceive a lower threat of migration for recipient countries with greater underlying prospects for economic growth since the incentives to migrate will be greatly diminished. To test this dynamic, we interact the migrant stock variables with the real annual GDP growth rate of the recipient country. GDP growth data are calculated using the Penn World Tables.

4.3.3 Controls

Our models control for factors plausibly associated with both international migration flows and IMF lending behavior. Previous research supports that allies of major IMF shareholders are likely to receive bigger IMF loans and less onerous conditionality than non-allies. Countries may ally for a variety reasons—such as sharing similar cultural attributes, geographic proximity, or common interests—that may also be correlated with international migration flows. For instance, migrants are likely to move to destination countries with the same language or a similar culture. In addition, allied states with more cordial relations could be more willing to permit free movement of individuals between them than otherwise. We therefore control for common security interests by including a dummy variable for whether the recipient country is a formal ally with any G5 country. These data come from the Correlates of War (COW) Formal Alliance dataset.

The commercial relationship between G5 members and IMF recipients is also important. Countries vital to G5 economic interests, such as those that constitute large export markets, are likely to receive more favorable treatment since the negative effects of austere policy conditions can reverberate to foreign countries when economic interdependence is high. At the same time, migration flows may rise between countries that are economically connected, as result of the freer flow of information and growing familiarity between the host and home country. We ac-

count for shared commercial interests by controlling for the recipient country's total imports (logged) and total exports (logged) vis-à-vis G5 countries.[13]

To account for the political institutions of the recipient country, we control for level of democracy using the recipient country's Polity score. Democratic recipient countries are likely to receive more favorable loan packages, whether due to their similar political institutions with G5 countries or due to the fears of G5 policymakers over democratic backsliding. Migration patterns may also differ between democratic dyads since migrants are likely to move where they are granted greater (and more secure) social and political rights.

Our last set of controls are standard macroeconomic measures of the IMF recipient country. These include (log) GDP and (log) GDP per capita. Annual GDP growth is also included as a control for testing the unconditional relationship between migration pressures and IMF lending behavior. This ensures that our independent variables are not instead picking up growth and development characteristics of the recipient country that are likely to drive both migration and IMF lending decisions. Data for GDP and GDP per capita are obtained from the Penn World Tables. We also supplement some missing data on GDP per capita using World Bank data.

4.3.4 Statistical Models

Because the logged measure of IMF loan size is continuous and normally distributed, while labor policy conditions and waivers are count variables, we test each of our hypotheses using different econometric methods. For the analysis of IMF loan size, we first estimate the following ordinary least squares (OLS) model with standard errors clustered on country:

$$ln(Loan\ Size\ per\ Capita) = \beta_0 + \beta_1 G5\ Migrants_j + \gamma \mathbf{X_j} + \delta_t + \varepsilon$$

where $G5\ Migrants_j$ is the existing stock of migrants living in G5 countries (weighted by G5 country vote share and then normalized by the recipient country's popula-

[13] These data also come from the Correlates of War International Trade dataset.

tion), $\mathbf{X_j}$ is a vector of controls, and δ_t denotes year fixed effects. For models testing the importance of migration pressures to individual G5 countries, we simply disaggregate *G5 Migrants* into five separate independent variables. Year fixed effects control for time-trends and omitted system-level variables—such as commodity price shocks or global economic crises—that are likely to bias our estimates. We do not, however, include country fixed effects for borrowing countries since many have a single-year observation. While some IMF programs span several years, the migration stock variable is generally time-dependent within each borrowing country. Not only do migrant stocks tend to grow over time, but also our data construction method uses linear interpolation. Even if we abandon linear interpolation in favor of carrying forward ten-year intervals' known values to unobserved years in between, we would not get much within-country variation in the migration variable given that our panel is relatively short. In the end, we exploit cross-national differences in migrant networks to explain why some countries receive better packages from the Fund, not why the Fund treats a particular borrowing country differently at various times.

Our unconditional hypothesis predicts β_1 to be positive—that is, where the threat of migration to G5 countries is greatest, recipient countries will be granted larger IMF loans. To test the conditional effect of G5 migrant stocks, we instead estimate an OLS model that interacts *G5 Migrants* with annual GDP growth. Here, we expect the constituent term for *G5 Migrants* to be positive, but the interaction term to be negative. This would signify that the threat of migration is perceived as less of a concern by G5 policymakers when the growth prospects of IMF program recipients are relatively good.

Because labor policy conditions and condition waivers are count variables, estimating an OLS model would yield biased and inefficient estimates. In addition, both dependent variables have variances nearly twice the size of their mean, which indicates overdispersion in the data. Goodness-of-fit tests of Poisson models also suggest that the Poisson distribution is a poor modeling choice.[14] We therefore use a

[14]For all Poisson models, Prob $> \chi^2 = 0.000$. The dispersion parameter for all negative binomial

negative binomial model for estimating both labor policy conditions and condition waivers:

$$p(y_i) = \frac{\Gamma(1/\alpha + y_i)}{\Gamma(1/\alpha)\Gamma(y_i + 1)}(\frac{1}{1 + \alpha e^{x_i - \beta}})^{1/\alpha}(\frac{\alpha e^{x_i - \beta}}{1 + \alpha e^{x_i - \beta}})^{y_i}, i = 1, 2, ..., n.$$

where y_i = number of labor market conditions or waivers granted; $\alpha > 0$ is the heterogeneity parameter; predictor variables x_1, x_2, ..., x_p are given; and regression coefficients β_0, β_1, β_2,..., β_p are to be estimated. Standard errors are again clustered on country. The control variables of these models is identical to our model of loan size. For labor and fiscal policy conditions, we predict the coefficient on *G5 Migrants* to be negative. For condition waivers, we predict the coefficient on *G5 Migrants* to be positive.

4.4 Empirical Findings

4.4.1 Migration Pressures and the Size of IMF Loans

We first present the statistical results for IMF loan size. Table 4.1 provides estimates for the relationship between our *G5 Migrants* composite measure and per capita loan size (logged). Model 1 controls only for alliance membership, trade with G5 countries, and democracy. Models 2 through 4 each incorporate different macroeconomic measures to assess whether the results are affected by the recipient country's growth or development characteristics. These measures are included separately from one another since they are highly collinear. Model 5 tests the conditional relationship between migration pressures and IMF loan size by interacting *G5 Migrants* with the recipient country's GDP growth. All models include year fixed effects.

In Model 1, *G5 Migrants* is statistically significant ($p < 0.05$) and in the predicted positive direction. When G5 countries host a relatively large stock of migrants from the IMF recipient country, the IMF tends to grant larger loans. The size of this

models is also statistically distinguishable from zero, which further confirms a Poisson model would be inappropriate.

Table 4.1: G5 Migration and IMF Loan Size

	(1)	(2)	(3)	(4)	(5)
G5 Migrants $_{j,i}$ (per capita$_j$)	35.637*	33.175*	12.847	28.408$^+$	33.942*
	(14.149)	(16.303)	(14.156)	(14.901)	(14.481)
G5 Alliances	0.175	-0.005	0.191	0.219	0.235
	(0.230)	(0.149)	(0.214)	(0.228)	(0.228)
Polity	0.028*	0.007	0.032**	0.028*	0.028*
	(0.012)	(0.008)	(0.010)	(0.011)	(0.011)
Total Imports from G5 (log)	0.021	-0.143*	0.229*	0.031	0.033
	(0.089)	(0.061)	(0.095)	(0.092)	(0.092)
Total Exports to G5 (log)	0.147*	0.079	0.205**	0.135$^+$	0.135$^+$
	(0.070)	(0.053)	(0.074)	(0.073)	(0.074)
GDP per Capita (log)		0.727***			
		(0.091)			
GDP (log)			-0.293***		
			(0.077)		
GDP Growth				-2.560***	-1.749*
				(0.742)	(0.846)
G5 Migrants $\times$ GDP Growth					-375.945*
					(148.820)
Year Fixed Effects	✓	✓	✓	✓	✓
Observations	663	658	648	647	647

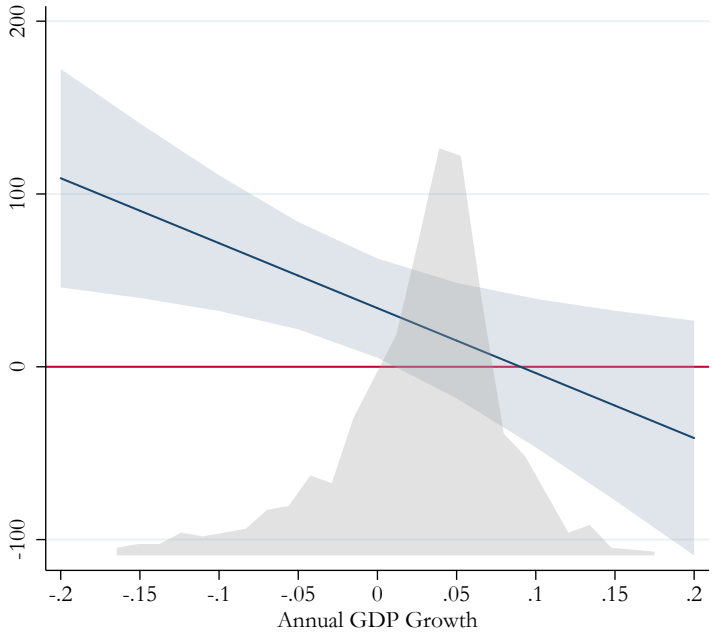
Note: These estimates are from ordinary least squares (OLS) regression. The dependent variable is the (logged) size of the loan for a given IMF program. Standard errors are clustered on country and are shown in parentheses. ***, **, *, and $^+$ indicate statistical significance levels of 0.1, 1, 5, and 10 percent, respectively.

effect is quite large. A 1 SD increase in *G5 Migrants* is associated with a roughly 27 percent increase in the per capita size of the IMF loan. This finding also holds when controlling for the growth and development characteristics of the recipient country. *G5 Migrants* remains positive and statistically significant in Models 2 and 4 (at the 0.05 and 0.10 level, respectively). The coefficient shrinks slightly in these models, as economic growth and development in the recipient country are likely to be tied to both migration patterns and the need for IMF finance. Nevertheless, a 1 SD increase in *G5 Migrants* is still associated with a 21 to 25 percent increase in loan size per capita. This lends further support to Hypothesis 1 and confirms that the relationship between migration pressures and loan size is not simply an artifact of the size or poverty level of recipient countries. *G5 Migrants* remains positive, but loses statistical significance in Model 3.

Model 5 shows support for our unconditional hypothesis. The interaction term of our G5 migrant stock measure and GDP growth is statistically significant at the

0.05 level and in the predicted negative direction. This suggests that G5 policymakers become less concerned about the threat of migration when the recipient country's economy is growing. The nature of this relationship also makes intuitive sense. Note first that the constituent term for the G5 migrant stock measure is statistically significant at the 0.05 level and reflects the relationship between *G5 Migrants* and IMF loan size under conditions of zero growth in the recipient country. Thus, for IMF recipients at zero growth rates, a 1 SD change in *G5 Migrants* is associated with a 25 percent increase in the per capita loan size. Figure 4.1 illustrates the marginal effect of *G5 Migrants* across different levels of GDP growth. As shown, lethargic growth rates in the recipient country tend to exacerbate policymakers' concerns with migration. Interestingly, too, the marginal effect of *G5 Migrants* becomes statistically indistinguishable from zero when recipient countries experience some positive level of economic growth. Migration pressures therefore appear to be a concern only when the preexisting economic conditions within recipient countries are particularly dire.

Figure 4.1: Marginal Effect of G5 Migrant Stocks (Model 5)



Note: The blue area denotes 95% confidence intervals.

Table 4.2 next provides results when disaggregating the migrant stocks of G5 countries into five separate (and unweighted) variables. This allows us to see whether migration pressures are salient for certain G5 destination countries more than others. The specification of these models mirrors those of Models 1 through 4. From Table 4.2, there is a clear relationship between loan size and migration pressures on the European G5 members. In all four models, the migrant stock measure for the UK is statistically significant and in the predicted positive direction. Depending on the model, a 1 SD increase in $UK\ Migrant\ Stock_j$ elicits a 25 to 32 percent increase in loan size per capita. With the exception of Model 7, which includes GDP per capita, the stocks of migrants living in Germany and France are also statistically significant and positive. For Germany, a 1 SD increase in the migrant stock measure is associated with as much as a 19 percent increase in per capita loan size, whereas for France, this number is closer to 11 percent.

In contrast, the stock of migrants from recipient countries seems to not matter for the United States and Japan. It appears then that the connection between migration pressures and IMF loan size is primarily driven by the major European shareholder countries. This is not too surprising. Europe is in close geographic proximity to major migrant-sending states in Africa, Eastern Europe, and the Middle East. About 66% of IMF programs in our sample are directed at countries in Africa, Europe, and the Middle East. France and the UK are also former colonial powers that have consequently served as common destinations of migrants from former colonies. For these reasons, it is likely that the relationship between IMF loan size and future migration is a greater consideration among policymakers in Europe. This is not to say that the US—the Fund's largest shareholder—is unable to exert any influence, but only that US power in the IMF is used to serve other foreign policy concerns, at least when it comes to loan size.

Table D.2 in the Appendix provides the results of the conditional effect of migration pressures.[15] Model A1 first tests the conditional relationship between

[15]Interactions with US and Japan migrant stock measures are not shown. These are statistically insignificant.

Table 4.2: Migration to Individual G5 Countries and IMF Loan Size

	(6)	(7)	(8)	(9)
US Migrant Stock$_j$ (per capita$_j$)	0.038	1.779	-4.441*	-1.752
	(2.676)	(3.066)	(2.207)	(2.469)
UK Migrant Stock$_j$ (per capita$_j$)	30.817**	24.398*	29.277**	30.450**
	(11.541)	(9.693)	(8.861)	(9.771)
Japan Migrant Stock$_j$ (per capita$_j$)	-12.896	0.774	-29.093^{+}	-6.127
	(17.381)	(12.543)	(16.083)	(17.649)
Germany Migrant Stock$_j$ (per capita$_j$)	15.701*	-4.866	16.660**	14.777*
	(6.772)	(5.272)	(5.605)	(6.503)
France Migrant Stock$_j$ (per capita$_j$)	15.121**	6.721	9.587^{+}	14.685**
	(5.592)	(5.839)	(5.705)	(5.206)
G5 Alliance	0.455^{+}	0.054	0.482*	0.496*
	(0.243)	(0.165)	(0.218)	(0.238)
Polity	0.015	0.004	0.017	0.015
	(0.012)	(0.008)	(0.011)	(0.012)
Total Imports from G5 (log)	0.002	-0.129*	0.216*	0.020
	(0.086)	(0.061)	(0.090)	(0.088)
Total Exports to G5 (log)	0.135*	0.066	0.189**	0.120^{+}
	(0.065)	(0.052)	(0.069)	(0.069)
GDP per Capita (log)		0.740***		
		(0.098)		
GDP (log)			-0.289***	
			(0.075)	
GDP Growth				-2.465***
				(0.721)
Year Fixed Effects	✓	✓	✓	✓
Observations	663	658	648	647

Note: These estimates are from ordinary least squares (OLS) regression. The dependent variable is the (logged) size of the loan for a given IMF program. Standard errors are clustered on country and are shown in parentheses. ***, **, *, and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively.

UK Migrant Stock$_j$ and IMF loan size. Consistent with our hypothesis, the coefficient on the interaction term is negative and statistically significant at the 0.10 level. As seen in Figure D.1, concerns about migration appear to only matter at low or negative rates of economic growth in the recipient country. This lends further support to the argument that G5 policymakers perceive migration as less of a threat when the growth prospects of recipient countries are relatively good. The interaction terms, however, are statistically insignificant for Germany and France in Models A2 and A3, respectively.

4.4.2 Robustness Checks

To further assess the robustness of our results, we next consider alternative mechanisms that may explain the positive relationship between migration pressures and IMF loan size. One concern is how the colonial history between G5 countries and the borrowing country may shape both IMF lending decisions and migrant networks in G5 countries. Within migrant-sending countries, individuals are likely to have greater knowledge of the laws, economy, and culture of their former colonial powers (Fitzgerald et al. 2014, p. 418). This type of information is often critical for potential migrants when seeking employment opportunities and new places of residence. Indeed, our results suggest that it is primarily the UK and France, the two major former colonial powers, that drive the relationship between migration pressures and loan size. If major IMF shareholders treat their former colonies more favorably than other loan recipients (e.g., Stone 2004), this could bias our estimates upwards. In addition, former colonies may attract greater amounts of foreign direct investment (FDI) which could also factor into the calculus of policymakers.[16]

Table 4.3 presents correlations between each major shareholder's migrant stock and whether the migrant-sending country is a former colony of the specific IMF shareholder (indicated in the left column).[17] As shown, major IMF shareholders host a greater number of migrants from their former colonies than non-colonies. Still, with the exception of Japan, these coefficients are smaller than expected. Moreover, the G5 colony dummy is negatively related to the size of G5 migrant stocks as a whole. This is more consistent with conditional relationships found between colonial history and international migration patterns (e.g., Neumayer 2005; Riley and Emigh 2002).

Nevertheless, we control for colonial relationships in Model (A4) and (A5). Table D.3 in the Appendix provides the complete estimates for these models. Model (A4) first estimates the effect of G5 migration pressures conditional on GDP growth

[16] While we recognize FDI flows as a potential confounder, limited data on bilateral FDI flows prohibits us from exploring this quantitatively. Including FDI inflows causes roughly a third of our statistical sample to drop.

[17] Note that these correlations are calculated for the sample within our dataset.

Table 4.3: Relationship between Former Colonial Relationships and Migration

	Correlation with Migrant Stock
FRA Colony	0.2087
GER Colony	0.2073
JPN Colony	0.9347
UK Colony	0.4186
US Colony	0.1371
G5 Colony	-0.1450

rates. When including a dummy for whether a loan recipient is a former colony of a G5 country, the interactive term is again negative and statistically significant at conventional levels. Substantively, the results are similar to previous models. As shown in Figure D.2 in the Appendix, greater migrant stocks in G5 countries are associated with larger IMF loans only when GDP growth is at or below zero. This is further evidence that migration pressures are a particularly relevant concern for G5 policymakers when economic conditions in the borrowing country deteriorate.

Model (A5) instead looks at individual migrant stocks and includes separate former colony dummies for each G5 country. *UK Migrant Stock* and *France Migrant Stock* are positive and the only migrant stock measures that reach statistical significance ($p < 0.01$ and $p < 0.10$, respectively). Thus, the association between IMF loan size and migration pressures for the major former colonial powers remains robust. For policymakers in these countries, concerns about migration exist independently of the networks and diplomatic relations established with their post-colonial states.

We next look at whether accounting for remittance inflows into IMF recipient countries affects the main findings. Remittance flows are naturally associated with larger migrant populations and can also serve as an additional insurance mechanism for the IMF. This means the IMF may be more willing to lend to countries that have greater access to remittances inflows, which are typically countercyclical in nature. Model (A6) of Table D.3 tests for the effect of migration pressures conditional on GDP growth once controlling for remittance inflows (log). The interactive term is negative and statistically significant at the 0.05 level, which is again consistent with the main findings. The Remittances coefficient is negative, suggesting that

remittances may instead act as a substitute for large IMF programs.

It is worth noting too that remittances partially capture the wealth and political influence of migrants abroad. Remittances therefore control for an alternative mechanism involving migrant lobbying, where existing diasporas lobby host governments to offer more favorable policies to their home states (Bermeo and Leblang 2015). We do not find this counterargument convincing in the IMF context since it is unlikely migrants possess the resources and political access to influence policymakers' decisions within an IO as large as the Fund. At times,b b d too, migrants may actually *oppose* accommodative policies toward their native states, such as in the case of Cuban Americans' attitudes toward sanctions against the Castro regime (Shain 1994; Vanderbush 2009). The results of Model (A6) therefore confirm our skepticism.

Lastly, we test whether our initial findings are sensitive to our scaling of the dependent variable. Rather than scale loan size in terms of the recipient country's population, we instead divide loan size by the recipient country's quota size (logged). This is a common method in the literature since IMF quotas are roughly proportional to the size of a country's economy and trade volume (Stone 2002, p. 57). Loan Size per Capita (log) and Loan Size per Quota (log) are highly correlated ($r = 0.76$), though there is some difference since quotas are not perfectly representative of country's population size. Model (A7) in Table D.3 tests for the effect of migration pressures conditional on GDP growth using the baseline of controls as well as a G5 colony dummy. Here, the interactive term is negative and statistically significant at the 0.01 level. Larger migrant stocks are again associated with more sizable IMF loans, but only at negative rates of economic growth.

4.4.3 Migration Pressures and IMF Conditionality

Do migration pressures also affect the types of conditionality imposed by the Fund? We first address this question by analyzing the number of labor policy conditions for a given program. Models 10 and 11 in Table 4.4 present the main results for the relationship between migration and labor conditionality. Additional

robustness checks are also provided in Table D.4 in the Appendix. Consistent with our main argument, *G5 Migrants* is negative and statistically significant at the 0.10 level in Model 10. Recipient countries are less likely to have labor policy reforms imposed on them when they have a large stock of their citizens already living in G5 countries. In such cases, G5 policymakers are likely to fear that labor policy reforms—such as lowering the minimum wage and establishing limits on public employment—will lead to increased migration into their country.

Model 11 next estimates the number of labor conditions using migrant stocks for each individual G5 country. In contrast to our findings on loan size, the results suggest that migration pressures on the IMF's largest shareholder, the US, matter most in determining labor policy conditionality. The coefficient on $US\ Migrant\ Stock_j$ is negative and statistically significant at the 0.05 level. The size of the coefficient increases further and is statistically significant at the 0.05 level once controlling for economic characteristics of the recipient country in Models A11 and A13. The migrant stock measures for European shareholders, however, are statistically indistinguishable from zero and in the wrong direction, regardless of the model specification.

We also find evidence that migration pressures to the US are important considerations of IMF fiscal conditionality. In Models 12 and 13, we estimate the number of fiscal policy conditions for IMF programs using the same set of controls.[18] Fiscal policy conditions include government budget-related issues and government borrowing. We again expect a negative relationship between migrant stocks and these types of conditionality, as fiscal consolidation and cuts to public service provisions are likely to exacerbate the costs of internal adjustment within the recipient country. Similar to labor policy conditions, we find evidence that migration pressures to major shareholder countries are a significant predictor of the number of fiscal policy conditions. In Model 12, $G5\ Migrants_{j,i}$ is negative and statistically significant at the 0.01 level. We also find that it is again US migration pressures primarily driving

[18]Fiscal conditionality models are estimated using Poisson regression due to problems of convergence in our negative binomial models.

this relationship, as the US migrant stock measure is negative and statistically significant at 0.001 level in Model 13. Robustness checks provided in Table D.5 of the Appendix further confirm these findings. Note that the coefficients of the migration variables for labor conditions are more substantial than those for fiscal conditions. This is in accordance with our initial expectation that labor conditions are more closely linked to migration dynamics and are a more important consideration than fiscal conditions for the Fund.

These results may be interpreted in two ways. First, while we argue that migration pressures are certainly a main driver of the policy preferences of European G5 members, it might be true that these countries seek to ameliorate the threat of migration through means other than altering conditionality. The empirical evidence we have provided above suggests increasing the size of IMF loans is one such alternative means. Second, the US may be more forceful in using its formal and informal influence in the areas of conditionality vis-à-vis other IMF shareholders. This would make it harder for the IMF's European shareholders to impose their preferences over conditionality during the negotiation of IMF programs.

Finally, we assess whether migration pressures dictate flexibility during the implementation of IMF programs by looking at the number of condition waivers granted by the Fund. These results are shown in the far right column of Table 4.4. The coefficient on *G5 Migrants* is insignificant in Model 14. Thus, we find no support for the argument that migration pressures to G5 countries—at least when measured as whole—lead to greater flexibility in implementing IMF programs.[19]

The results indicate a different story when considering migrant stocks separately for each G5 member in Model 15. $UK\ Migrant\ Stock_j$ is positive and statistically significant at the 0.001 level. Consistent with our first hypothesis, this shows migration pressures on the UK are likely to lead to greater flexibility by the Fund when implementing IMF programs. By contrast, the coefficient for $US\ Migrant\ Stock_j$ is negative. That is, there is some evidence to suggest migration pressures on the US are associated with *less* policy flexibility by the IMF during program implemen-

[19]This null finding also holds in robustness checks provided in Table D.6.

tation. Though past the scope of this article, we posit two explanations for this counterintuitive result. First, strict enforcement of IMF conditionality may be a form of punishment issued by the US. Withholding condition waivers might therefore be an attempt by US policymakers to alter the behavior of abusive governments, where emigration is also a concern. Second, the US may view the implementation of prescribed policy reforms as likely to improve economic conditions of the recipient country *in the long run*, especially for poor migrant-sending countries.

In sum, the findings in this article suggest a highly nuanced relationship between migration pressures and the Fund's behavior in lending. We find the most robust support for our hypotheses in the context of IMF loan size. When migration pressures are a concern for G5 countries, the IMF tends to grant larger loans—especially when the recipient country is experiencing negative economic growth. However, this relationship appears to be primarily driven by concerns over migration to Europe. Moreover, G5 countries may utilize different means toward reducing the "push" effect that IMF conditionality has on future migration. For instance, while migration pressures on the UK are associated with larger loans and more flexible IMF programs, US concerns over migration appear to drive the types of policy reforms imposed by the Fund.

4.5 Conclusion

What does the IMF stand for? While we have known that the IMF has served the strategic interests of its major shareholders, most studies have focused on the familiar dynamics of international politics. In this article, we have highlighted the role of migration pressure as a determinant of who gets what from the Fund. Specifically, we have argued that the Fund grants larger loans and less stringent loan conditions to IMF recipients with large diasporas in the G5 states.

Our motivating case illustrates how the concerns of France, Germany, and the UK over Romanian immigration resulted in a generous loan package for the country and, at the same time, delayed the country's accession to the Schengen

area. Analyzing the policy space from 1978 to 2013 with a new dataset on IMF conditionality, we have disaggregated IMF conditionality by policy types and analyzed three particular dimensions of IMF program design: (1) the size of loan, (2) the stringency of conditions attached to the loan, and (3) the number of condition waivers granted during the program implementation. Accordingly, our empirical findings support our theoretical expectation that IMF loan recipients with large diasporas in G5 countries receive larger loans and more lenient loan conditions that reduce migration pressures faced by the IMF's major shareholders. Moreover, the link between IMF lending and migration pressure is especially striking when the economy of a borrowing country is underperforming.

Our depiction of the IMF as an International Migration Fund—a first in the literature to the extent of our knowledge—also paves the way for an exciting research program within the IMF literature. While this article demonstrates that the IMF stands for reduced migration into the G5 states, more research should explore how each G5 state uses the Fund's resources to reduce migration pressure into its territory. For instance, we find that the European IMF shareholders focus primarily on loan size while the US favors labor and fiscal conditions to achieve a similar outcome. Future research should investigate the inter-member dynamics within the Fund, and each G5 member's policy preferences and control over specific IMF instruments with respect to international migration. In addition, we find preliminary evidence that IMF lending decisions are consequential in shaping international migration patterns. We explore this relationship between IMF loan stringency and emigration in Table D.7 in the appendix. Although the emigration data used in the analysis are largely limited, the causal directions of the coefficients are in accordance with our expectations.

Furthermore, this article builds upon broader research on international institutions and the relationship between state interests and IO behavior. Though the effectiveness and legitimacy of IOs are said to rest on their autonomy in international relations (Abbott and Snidal 1998; Barnett and Finnemore 2004), the actions of IOs tend to be closely shadowed by state interests in practice (Stone 2011; Lim

and Vreeland 2013). In the case of the IMF, scholars have largely emphasized the geopolitical and commercial interests of powerful states in instructing IMF programs (Thacker 1999; Oatley and Yackee 2004; Broz and Hawes 2006; Stone 2008; Copelovitch 2010b). Our findings instead suggest that G5 concerns over migration are important in shaping the size and content of IMF loans. This suggests then that economic globalization—while arguably increasing the need for global governance—can at the same time constrain the actions of IOs by inciting interference from the most powerful states. Future work should aim to test whether migration pressures lead to similar dynamics in other major international institutions.

Finally, this article contributes to the growing literature on how state concerns over migration drive their foreign economic policies, including the allocation of foreign aid (Bermeo and Leblang 2015), exchange rate regimes (Singer 2010), foreign direct investment (Leblang 2010), sovereign debt (Bernhard and Leblang 2016), and economic sanctions (Connell et al. 2018). In addition, the findings of this article exemplify the growing importance of international migration in the international political economy research, as evidenced by recent research on trade and immigration policies (Peters 2015; 2017), as well as the implications of natural resources for immigration policy (Shin 2017). More broadly, our findings exemplify how the Bretton Woods institutions have evolved to mitigate globalization backlashes by reducing immigration inflows into the G5 countries in the new era of embedded liberalism (Ruggie 1982).

Table 4.4: G5 Migration, Conditionality, and Policy Waivers

	Labor Conditions		Fiscal Conditions		Condition Waivers	
	(10)	(11)	(12)	(13)	(14)	(15)
G5 Migrants $_{j,i}$ (per capita$_j$)	-30.423^{+}		- 19.072**		-3.382	
	(17.849)		(5.921)		(14.282)	
US Migrants$_j$ (per capita$_j$)		-8.073*		- 3.976***		- 8.100***
		(4.017)		(1.075)		(2.305)
UK Migrants$_j$ (per capita$_j$)		11.781		4.566^{+}		28.432***
		(13.505)		(2.671)		(5.184)
JPN Migrants$_j$ (per capita$_j$)		-311.654		-189.424		-31.382
		(219.397)		(265.422)		(28.194)
GER Migrants$_j$ (per capita$_j$)		1.922		-3.779		1.942
		(6.702)		(3.857)		(6.128)
FRA Migrants$_j$ (per capita$_j$)		9.808		6.993*		7.582
		(10.001)		(3.511)		(6.549)
G5 Alliance	0.032	0.163	0.173^{+}	0.198*	0.267	0.411*
	(0.213)	(0.243)	(0.092)	(0.095)	(0.175)	(0.185)
Polity	0.029*	0.027^{+}	-0.012^{+}	-0.011	-0.001	-0.007
	(0.015)	(0.015)	(0.007)	(0.007)	(0.010)	(0.010)
Total Imports from G5 (log)	0.081	0.088	0.022	0.033	0.150^{+}	0.134^{+}
	(0.081)	(0.080)	(0.046)	(0.048)	(0.078)	(0.081)
Total Exports from G5 (log)	-0.130*	-0.143*	-0.060^{+}	-0.066^{+}	-0.038	-0.027
	(0.065)	(0.064)	(0.034)	(0.035)	(0.066)	(0.067)
Total Number of Conditions	0.021***	0.021***	0.011***	0.011***	0.017***	0.017***
	(0.002)	(0.002)	(0.001)	(0.001)	(0.002)	(0.002)
Year Fixed Effects	✓	✓	✓	✓	✓	✓
Observations	663	663	663	663	591	591

Note: Models 10, 11, 14, and 15 provide estimates using negative binomial regression. Models 12 and 13 provide estimates using Poisson regression. Standard errors are clustered on country and are shown in parentheses. ***, **, *, and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively.

CHAPTER V

Conclusion

The point of departure for this dissertation has been an emerging contradiction between the theoretical expectations of democratic theory and recent political developments across the transitioning democracies of post-socialist Europe. That is, in theory, electoral democracy should root out political corruption, as constituents, armed with the power of the vote, hold corrupt parties and representatives accountable for political transgressions by voting them out of office. Political developments across a number of states in the post-communist region however challenge this expectation. While recent anti-corruption protests by voters in the cases of Albania (2018), Bulgaria (2013-2014), Romania (2017-2018), Slovakia (2018) and several other transitioning democracies signal voters' rising indignation at the pervasiveness of political corruption, the degree of electoral accountability that emerges does not consistently precipitate the political descend of corrupt parties and political elites. Instead, corrupt governing parties in several countries across the EU's post-socialist region, including Albania, Romania, Slovakia, Hungary etc. are able to maintain and, with some variation, even strengthen their hold on political power.

The contradicting nature of these developments raises questions about not only the types of strategies and resources that corrupt governing parties utilize to compromise electoral accountability and promote political longevity, but also the implications of these developments on the politics and policy-making decisions of international organizations to which these states partake in. Hence, these developments lead us to reconsider the relationship between political corruption, electoral

accountability, and distributive politics in the age of migration.

This dissertation explores the link between these factors from three closely related perspectives. First, it examines the types of distributive policies that corrupt incumbent parties establish to curtail electoral backlash and electoral accountability; Second, it analyzes the types of resources available to corrupt incumbents for achieving their desired political ends; And finally, given that immigration is often a consequence of underperforming economies of corrupt states, this dissertation analyzes the implications of rising migration pressures on the political economy of fiscal lending by international organizations, specifically the IMF. In its assessment of these interrelated factors, this dissertation contributes novel theoretical perspectives and newly assembled datasets that enhance our understanding of these phenomena from the perspectives of both the democratization as well as the political economy of fiscal lending literatures.

Chapter 2 of this dissertation focused on examining the combined effect of political corruption and distributive politics on patterns of electoral accountability. It analyzed the puzzle of what drives variation in patterns of electoral accountability and what types of resources and policies do parties employ to assuage potential electoral backlash. In this chapter, I put forth a new theoretical framework of *"corruption compensation"* that took into account voters' corruption perceptions, to identify strategic allocation of resources by governing parties as a proactive and retroactive reimbursement mechanism for mitigating voters' fury over corruption, mediating electoral backlash, and bolstering incumbents' political power at the expense of democratic effectiveness and public trust in democratic institutions. I systematically examined my theoretical expectations via qualitative evidence and an originally assembled data set in the case of Albania, one of Europe's highly-corrupt, post-socialist states. My findings lent support for my theoretical expectations that corrupt incumbents tend to inoculate themselves from electoral accountability by allocating greater shares of resources to regions where the electorate's corruption perceptions are higher and electoral accountability is most likely to emerge.

Chapter 3 examined an additional layer of the link between corruption, distribu-

tive politics, and electoral accountability. It built upon Chapter 2's findings to ask: Given that corrupt governing parties employ strategic allocation of fiscal resources as a defensive shield against electoral accountability, what is the impact of a larger pool of resources—distributed to recipient states by international organizations—on governing parties' electoral endurance? Guided by this motivating puzzle, Chapter 3 engaged in a cross-country, cross-time analysis to empirically examine the impact that fiscal transfers allocated by the EU to its member states have on the electoral returns and political power of corrupt governing parties in recipient states. I argued here that access and allocation authority over the EU's fiscal inflows enable corrupt governing parties to engage in a combination of distributive strategies aimed at maintaining the loyalty of their personalistic networks and appeasing electorally significant constituencies in ways that ultimately strengthen their hold on power. By focusing on the EU's geopolitical space, I analyzed new data on EU fiscal allocations over the period 2000 to 2015, to systematically test and confirm my theory that fiscal flows to corrupt EU states deliver political latitude and an electoral advantage to recipient states' governing parties.

The main objective of Chapter 4 was to expand the theoretical framework beyond the interaction of political corruption and distributive politics with electoral accountability to examine how international organizations, in this case IMF, respond to migration pressures, often born as a ramification of socioeconomic underperformance of highly corrupt, extracting states. In this Chapter, my coauthors and I put forth a depiction of IMF as an International Migration Fund—a first in the literature—to argue that IMF grants larger loans and less stringent loan conditions to IMF recipients that pose a migration pressure to the IMF's largest shareholder states. Examining the policy space from 1978 to 2013 with a new dataset on IMF conditionality, we dissaggregated IMF conditionality by policy type to examine three key dimensions of IMF program design: (1) loan size granted to recipient states, (2) the stringency of conditions attached to the loand, and (3) the number of condition waivers granted during the program implementation. Our analysis grants support for our theoretical expectations that IMF loan recipients with large

diasporas in G5 countries receive larger loans and more lenient loan conditions that reduce migration pressures faced by IMFs major shareholders. We find this to be particularly the case under conditions of underperforming economies in recipient countries.

The findings presented in this dissertation have important implications for democratic theory, economic development, and distributive policy both at the state and international organizations strata. At the state level: When incumbents misallocate state resources and external fiscal inflows to compromise voters' ability to hold them accountable, their own incentives to curb their political misconduct decline even further—a tendency that jeopardizes economic and democratic developments by wasting valuable resources, undermining policy outcomes and reducing citizens' trust in democratic institutions. In a tenuous, post-communist political landscape increasingly marked by populist politics and cases of authoritarian relapsing, such strains on the political, institutional and economic infrastructures of Europe's transitioning democracies threaten the region's democratic consolidation and sustainable peace. To enhance our understanding of these phenomena over a larger geopolitical space, future research should aim to test the "corruption compensation" mechanism in a larger cross-national setting. This approach would further advance our understanding of 1) the factors that drive cross-country variation in patterns of electoral accountability; and 2) how variation in "corruption compensation" strategies affects patterns of democratic consolidation across transitioning states.

At the level of international entities: Understanding whether fiscal funds allocated by the EU to highly corrupt member states serve to promote or jeopardize the EU's economic objectives and democratic values is essential to the formulation and proper implementation of EU- and state-level anticorruption policies. Additionally, findings that higher fiscal transfers by the EU are positively correlated with higher electoral advantages for corrupt incumbents of recipient states call for a re-calibration of EU's distributive mechanism. These findings suggest that diverting EU funds away from highly corrupt states (for instance, Hungary, Poland, and Romania) would undercut the political momentum and power consolidation

of corrupt governing parties while enabling the EU to redirect greater shares of resources to other member states (for instance, Greece) facing greater economic, humanitarian, and migration pressures. Building on these findings, further research should aim to test the link between EU's distributive policies and political corruption to governing parties political behavior, including authoritarian and populist tendencies. By providing insight into the dynamics of these relationships, these findings would serve as a foundation for the formation of EU policies aimed at constraining their emergence.

Finally, the findings presented here extend valuable insight on the impact of migration on the politics of fiscal lending by international organizations. Our findings that migration pressures faced by IMF's greatest shareholders drive the size of loans and conditionalities that IMF grants to recipient countries, suggest that that economic globalization—while arguably increasing the need for global governance—can at the same time constrain the actions of international organizations by inciting interference from the IMF's most powerful shareholder states. Future work should aim to test whether migration pressures lead to similar dynamics in other major international institutions, particularly the EU and the World Bank.

Combined, the recommendations for future research suggested here will advance our cross-time and cross-space understanding of the relationship between political corruption, distributive politics and electoral accountability in the age of migration.

APPENDICES

APPENDIX A

Supplementary Information for Introduction

Figure A.1: Student Protesters, Albania, December 2018

APPENDIX B

Supplementary Information for Chapter 2
Killing with Kindness: Corruption and Accountability in Distributive Politics

Figure B.1: Corruption Perceptions, 2010

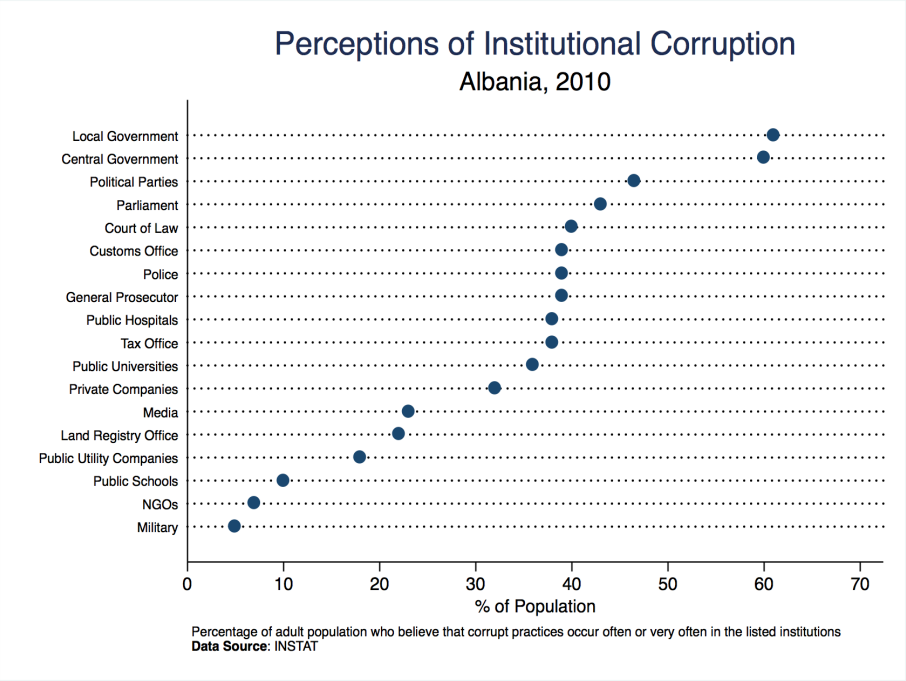


Table B.1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min.	Max.	N
Democratic Party Vote Share	41.517	10.224	9.952	67.631	336
Socialist Party Vote Share	39.388	9.536	2.341	62.456	336
Unconditional Transfers Per Capita	4.156	2.009	0.399	12.977	336
Increased Corruption Perceptions	0.372	0.193	0.05	0.952	336
Strong Opposition Perceptions	0.246	0.159	0	0.955	336
Party Alignment	0.544	0.465	0	1	336
Election Year	0.333	0.472	0	1	336
Turnout Per Electoral Unit	0.505	0.102	0.291	1	336
Voters Per Electoral Unit	5.279	5.913	1.289	48.594	336
GDP	9.866	10.417	1.853	44.731	336
Gross Value Added	8.865	9.35	1.678	40.054	336
Growth Rate	5.233	2.269	0.2	10.5	336
ln(GDP Per Capita)	1.957	0.744	0.617	3.801	336
ln(Gross Value Added)	1.851	0.743	0.517	3.69	336
ln(Growth Rate)	1.487	0.729	-1.609	2.351	336

Note: Unconditional Transfers (UT Per Capita)

Figure B.2: Corruption Perceptions, 2010

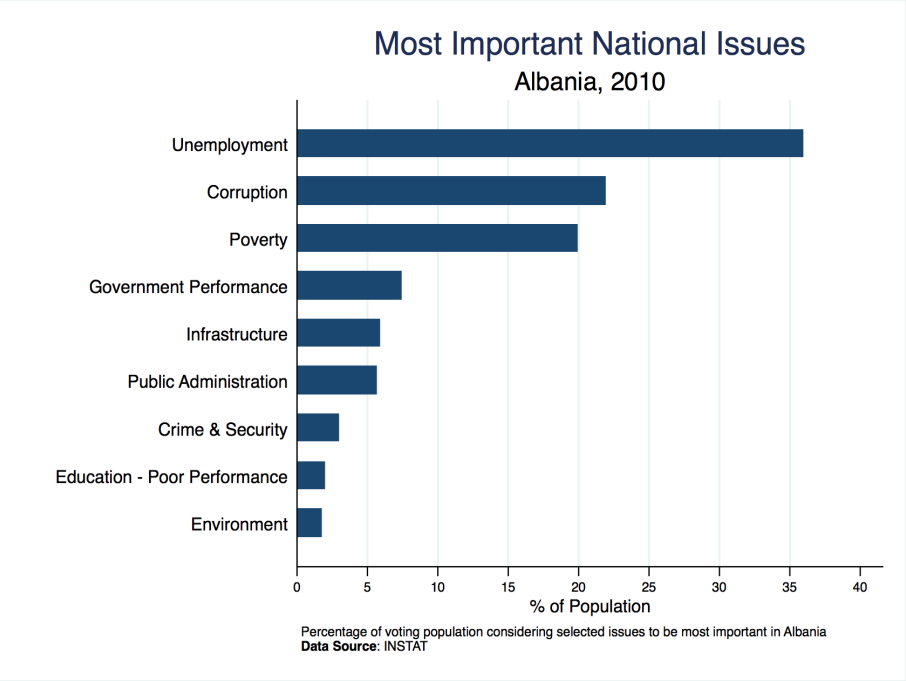


Figure B.3: Unconditional Transfers per Capita vs. DP Vote Shares Albania, 2005 - 2010

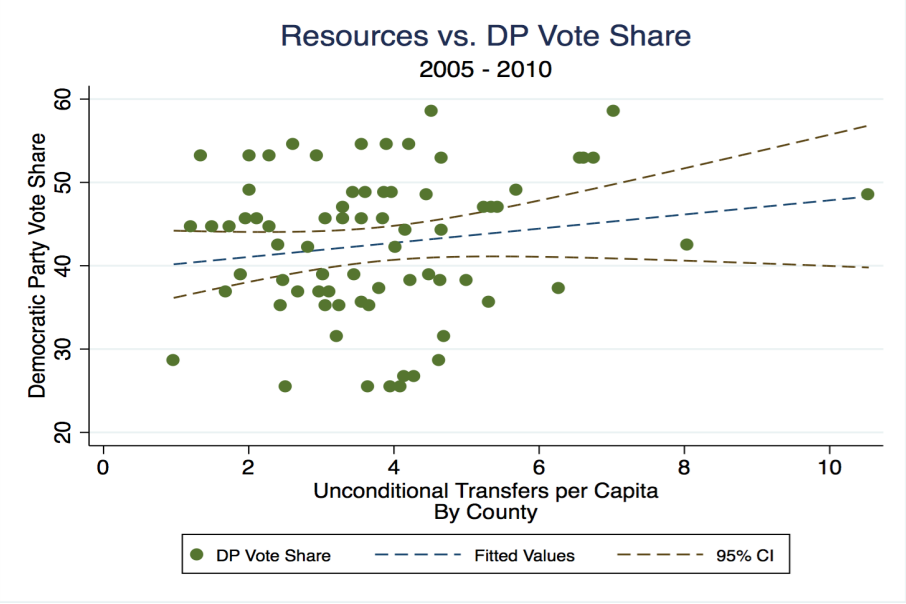


Table B.2: Descriptive Statistics - (Delta Regressions Variables)

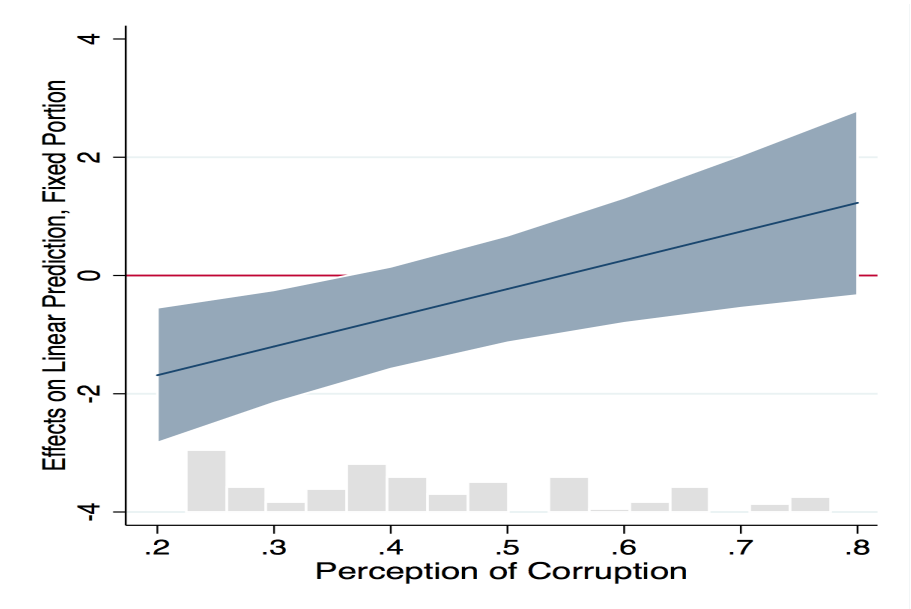
Variable	Mean	Std. Dev.	Min.	Max.	N
Δ (PD Vote Share)	-2.287	6.851	-17.689	12.353	56
Δ (UT Per Capita)	0.367	1.893	-5.837	4.694	56
Δ (Increased Corruption Perceptions)	0.243	0.239	-0.264	0.777	56
Δ (Strong Opposition Perceptions)	0.084	0.227	-0.455	0.955	56
mean(Party Alignment)	1.412	1.268	0	4.283	56
mean(Voters Per Electoral Unit)	15.466	17.122	2.372	74.72	56
mean(Turnout Per Electoral Unit)	1.219	0.563	0.388	2.369	56
mean(GDP)	28.989	43.137	2.786	186.37	56
mean(Growth Rate)	13.265	7.421	4.95	31.8	56

Table B.3: Determinants of Democratic Party Vote Shares By Election Years 2005 & 2009

Model	(6)	(7)	(8)	(9)
UT Per Capita	-1.664*	-2.658**	-2.061*	-1.934*
	(0.810)	(0.853)	(0.815)	(0.828)
Increased CP	-19.195**	-23.432**	-20.598**	-19.868**
	(7.090)	(7.126)	(6.689)	(6.734)
UT Per Capita × CP	3.497*	4.859**	3.465*	3.287*
	(1.732)	(1.745)	(1.662)	(1.673)
Voters Per Municipality		-0.238*	-0.259**	-0.253**
		(0.093)	(0.087)	(0.088)
GDP		0.109	0.079	0.098
		(0.190)	(0.189)	(0.189)
Growth Rate		-0.291	-0.237	-0.211
		(0.271)	(0.257)	(0.258)
Turnout			-25.647***	-26.108***
			(6.650)	(6.670)
Strong Opposition Perceptions				-2.878
				(3.459)
County-Year Random Effects	✓	✓	✓	✓
Municipality-Year Random Effects	✓	✓	✓	✓
Year Fixed Effects	✓	✓	✓	✓
Observations	112	112	112	112

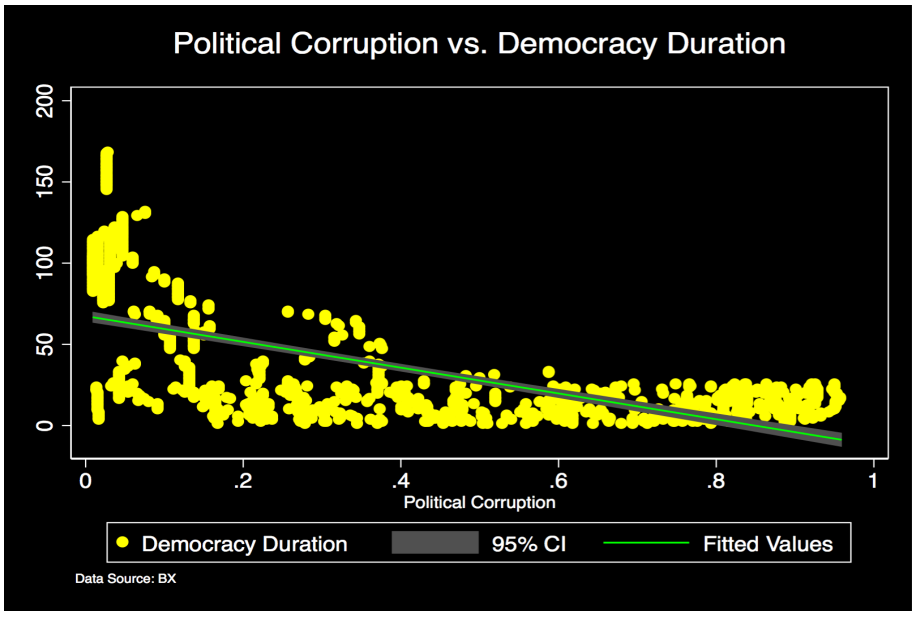
Note: This table portrays a mixed, multilevel model analysis of the determinants of Democratic Party vote shares in year t. The dependent variable is Vote Shares for Democratic Party per electoral municipality m of county i at time t. Main explanatory variables are Increased Corruption Perceptions (CP) and the interaction term between UT Per Capita and CP. Standard errors are shown in parentheses. ***, **, * and $^+$ indicate statistical significance levels of .1, 1, 5 and 10 percent, respectively.

Figure B.4: Marginal Effects of UT per Capita Conditional on Corruption Perceptions



Note: The blue area denotes 95% Confidence Intervals

Figure B.5: Political Corruption vs. Duration of Democracy
All European States, 1991-2007



APPENDIX C

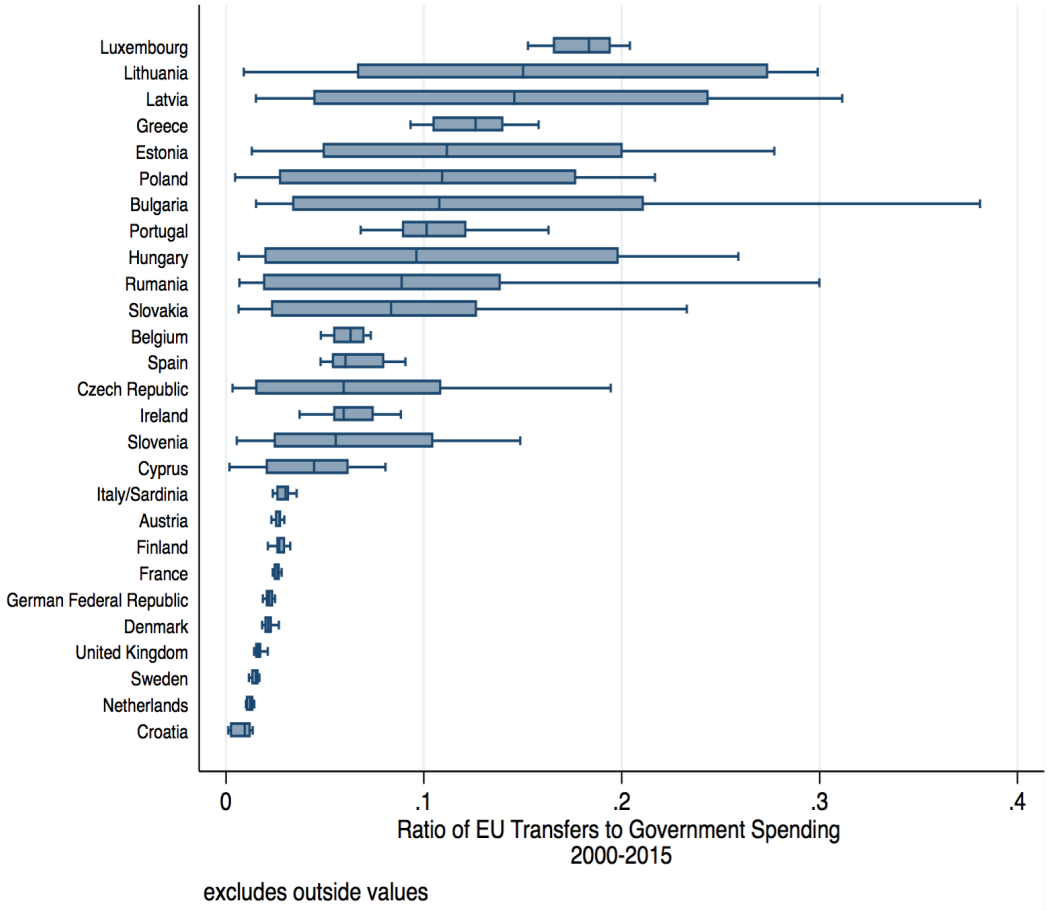
Supplementary Information for Chapter 3 Unintended Consequences: EU Funds, Political Corruption, and Power Consolidation

Table C.1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min.	Max.	N
Gov Parties' Seat Share$_{it}$	0.558	0.077	0.321	0.799	430
Total EUT$_{it}$ (in mill. Euros)	3850.944	4345.494	4.37	17436.082	432
ln(Total EUT$_{it}$)	7.376	1.626	1.475	9.766	432
EUT Per Capita$_{it}$	337.985	489.877	2.086	3080.864	432
EUT$_{it}$/ Gov Spending$_{it}$	0.189	0.183	0.003	0.788	432
Exec. Corrupt. Index (ECI)$_{it}$	0.153	0.148	0.011	0.679	416
Gov Consumpt Expenditure$_{it}$	0.073	0.073	0.001	0.381	432
Share (EUT/Gov Consumpt)$_{it}$	196.002	224.776	0.294	960.977	432
Number of Gov Seats$_{it}$	148.808	105.445	0	504	432
Number of Opposition Seats$_{it}$	116.19	79.718	0	346	432
Δ Party Seats (Gov - Opp)$_{it}$	32.618	55.115	-86	377	432
Polity IV$_{it}$	9.634	0.628	8	10	432
Political Stability$_{it}$	0.752	0.416	-0.482	1.663	405
Civil Society Index$_{it}$	0.914	0.048	0.638	0.976	416
Rule of Law$_{it}$	1.091	0.636	-0.269	2.12	405
Government Effectiveness$_{it}$	1.156	0.632	-0.435	2.359	405
Equal Resource Distribution$_{it}$	0.923	0.053	0.755	0.982	416
Legislative Election$_{it}$	0.266	0.442	0	1	432
Democratic Transition$_{it}$	.41	.49	0	1	432
ln(GDP)$_{it}$	26.103	1.511	23.371	28.938	432
ln(Population)$_{it}$	15.98	1.302	12.986	18.229	432

Note: EUT denotes EU Transfers;

Figure C.1: Ratio of EU Transfers to Government Spending2000 - 2015



Note: The box plot displays the distribution of EU fiscal transfers across member states during 20002015. The graph indicates the range, median, and means of the ratio of the total amount of EU Funds received by recipient country *i* in year *t* to country *i's* government spending over year *t*.

APPENDIX D

Supplementary Information for Chapter 4
IMF: International Migration Fund

Table D.1: Summary Statistics

Variable	**N**	**Mean**	**SD**	**Min**	**Max**
Loan Size (log)	663	2.666	1.143	0.335	8.353
Labor Policy Conditions	663	2.054	3.795	0	24
Condition Waivers	591	4.184	6.970	0	67
Fiscal Policy Conditions	663	7.127	9.172	0	67
G5 Migrants (per capita$_j$)	663	0.003	0.005	9.48E-06	0.048
US Migrant Stock (per capita$_j$)	663	0.0123	0.030	4.25E-06	0.262
UK Migrant Stock (per capita$_j$)	663	0.002	0.009	0	0.089
Japan Migrant Stock (per capita$_j$)	663	0.0001	0.001	0	0.018
Germany Migrant Stock (per capita$_j$)	663	0.004	0.010	0	0.064
France Migrant Stock (per capita$_j$)	663	0.003	0.007	0	0.063
G5 Alliance	663	0.290	0.454	0	1
Total Imports from G5 (log)	663	6.366	1.609	0	11.773
Total Exports to G5 (log)	663	6.099	1.999	.588	11.642
Polity	663	1.337	6.526	-9	10
GDP per Capita (log)	658	8.149	0.941	5.897	10.797
GDP (log)	648	10.400	1.607	6.482	14.689
GDP Growth	647	0.025	0.060	-0.360	0.205
Total Number of Conditions	663	43.403	40.713	2	294
G5 Colony	663	0.570	0.495	0	1
US Colony	663	0.007	0.087	0	1
UK Colony	663	0.259	0.439	0	1
JPN Colony	663	0.006	0.077	0	1
GER Colony	663	0.026	0.158	0	1
FRA Colony	663	0.284	0.451	0	1
Remittances (log)	528	18.216	2.689	9.209	23.353

Table D.2: Conditional Effect of G5 Migration on IMF Loan Size

	(A1)	(A2)	(A3)
UK Migrant Stock$_j$ (per capita$_j$)	30.498**	30.564**	30.441**
	(9.025)	(9.798)	(9.775)
UK Migrants × GDP Growth	-223.299$^+$		
	(115.609)		
Germany Migrant Stock$_j$ (per capita$_j$)	14.603*	15.419*	15.280*
	(6.517)	(6.585)	(6.443)
Germany Migrants × GDP Growth		-24.462	
		(45.918)	
France Migrant Stock$_j$ (per capita$_j$)	14.846**	14.877**	17.207**
	(5.151)	(5.189)	(5.175)
France Migrants × GDP Growth			-167.378
			(135.224)
GDP Growth	-2.152**	-2.314**	-2.100*
	(0.732)	(0.791)	(0.803)
US Migrant Stock$_j$ (per capita$_j$)	-1.403	-1.755	-1.643
	(2.475)	(2.474)	(2.483)
Japan Migrant Stock$_j$ (per capita$_j$)	-5.997	-6.752	-7.307
	(17.595)	(17.893)	(17.606)
G5 Alliance	0.486*	0.499*	0.484*
	(0.238)	(0.240)	(0.240)
Polity	0.015	0.015	0.014
	(0.012)	(0.012)	(0.012)
Total Imports from G5 (log)	0.018	0.020	0.020
	(0.088)	(0.088)	(0.088)
Total Exports to G5 (log)	0.121$^+$	0.119$^+$	0.121$^+$
	(0.069)	(0.069)	(0.069)
Year Fixed Effects	✓	✓	✓
Observations	647	647	647

Note: These estimates are from ordinary least squares (OLS) regression. The dependent variable is the (logged) size of the loan for a given IMF program. Standard errors are clustered on country and are shown in parentheses. ***, **, *, and $^+$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively.

Table D.3: G5 Migration and Loan Size (Robustness Checks)

	Dependent Variable: Loan Size (log)			
	Per Capita of Recipient			Per Quota
	(A4)	(A5)	(A6)	(A7)
G5 Migrants$_{j,i}$ (per capita$_j$)	37.408*		45.468**	1.603
	(16.480)		(16.269)	(7.371)
GDP Growth	-1.297		-2.095$^+$	0.130
	(0.881)		(1.148)	(0.716)
G5 Migrants × GDP Growth	-412.378**		-385.035*	-418.647**
	(155.853)		(173.605)	(135.890)
G5 Alliance	0.159	0.797*	0.131	0.165
	(0.233)	(0.318)	(0.221)	(0.105)
Polity	0.019	0.002	0.010	0.002
	(0.011)	(0.014)	(0.013)	(0.007)
Total Imports from G5 (log)	0.029		0.199$^+$	0.074
	(0.090)		(0.112)	(0.056)
Total Exports to G5 (log)	0.133$^+$		0.073	0.048
	(0.071)		(0.080)	(0.046)
G5 Colony	-0.339*		-0.392*	0.007
	(0.166)		(0.166)	(0.070)
US Migrant Stock$_j$ (per capita$_j$)		3.921		
		(2.483)		
UK Migrants$_j$ (per capita$_j$)		36.831**		
		(13.151)		
Japan Migrants$_j$ (per capita$_j$)		-219.338		
		(309.815)		
Germany Migrants$_j$ (per capita$_j$)		1.762		
		(7.157)		
France Migrants$_j$ (per capita$_j$)		13.987$^+$		
		(7.750)		
US Colony		-1.068**		
		(0.393)		
UK Colony		-0.725*		
		(0.318)		
France Colony		-0.512		
		(0.351)		
Japan Colony		5.053		
		(4.434)		
Germany Colony		-0.208		
		(0.396)		
Remittances (log)			-0.083*	
			(0.032)	
Controls for Bilateral Trade		✓		
Year Fixed Effects	✓	✓	✓	✓
Observations	647	444	528	550

Note: These estimates are from ordinary least squares (OLS) regression. Standard errors are clustered on country and are shown in parentheses. ***, **, *, and $^+$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively.

Table D.4: G5 Migration and Labor Conditionality

	(A8)	(A9)	(A10)	(A11)	(A12)	(A13)
G5 Migrants $_{j,i}$ (per cap$_j$)	-30.010^{+}	-22.959	-52.812*			
	(18.048)	(17.234)	(22.591)			
US Migrants$_j$ (per cap$_j$)				-8.973*	-6.722	-11.731*
				(4.113)	(4.780)	(5.202)
UK Migrants$_j$ (per cap$_j$)				15.205	10.075	8.391
				(13.469)	(14.505)	(16.050)
JPN Migrants$_j$ (per cap$_j$)				-343.354	-268.812	-167.935
				(240.985)	(201.995)	(131.639)
GER Migrants$_j$ (per cap$_j$)				7.805	2.297	1.963
				(7.119)	(6.912)	(5.411)
FRA Migrants$_j$ (per cap$_j$)				11.564	9.402	1.660
				(10.014)	(9.599)	(9.613)
G5 Alliance	0.050	0.064	-0.013	0.281	0.183	0.097
	(0.218)	(0.214)	(0.159)	(0.270)	(0.247)	(0.171)
Polity	0.032*	0.027^{+}	0.034*	0.029^{+}	0.025^{+}	0.030*
	(0.015)	(0.015)	(0.013)	(0.015)	(0.015)	(0.013)
Total Imports to G5 (log)	0.100	0.104	0.462***	0.122	0.112	0.460***
	(0.084)	(0.080)	(0.082)	(0.082)	(0.079)	(0.080)
Total Exports to G5 (log)	-0.118^{+}	-0.154*	-0.011	-0.122^{+}	-0.167**	-0.023
	(0.070)	(0.064)	(0.063)	(0.069)	(0.063)	(0.063)
Total Conditions	0.021***	0.022***	0.022***	0.020***	0.022***	0.022***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
GDP per Capita (log)	-0.086			-0.189		
	(0.119)			(0.127)		
GDP Growth		-0.716			-0.557	
		(0.996)			(0.975)	
GDP (log)			-0.584***			-0.576***
			(0.093)			(0.095)
Year Fixed Effects	✓	✓	✓	✓	✓	✓
Observations	658	647	648	658	647	648

Note: The dependent variable is the total number of labor conditions imposed on the IMF recipient country. Standard errors are clustered on country and are shown in parentheses. ***, **, *, and $^{+}$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively.

Table D.5: G5 Migration and Fiscal Conditionality

	(A14)	(A15)	(A16)	(A17)	(A18)	(A19)
G5 Migrants$_{j,i}$ (per cap$_j$)	-18.968**	-12.779*	-25.246**			
	(6.156)	(5.916)	(7.934)			
US Migrants$_j$ (per cap$_j$)				-4.180***	-2.790*	-4.747***
				(1.130)	(1.108)	(1.360)
UK Migrants$_j$ (per cap$_j$)				5.945*	3.558	2.188
				(2.850)	(2.988)	(2.313)
JPN Migrants$_j$ (per cap$_j$)				-193.952	-179.136	-153.292
				(272.890)	(251.479)	(192.626)
GER Migrants$_j$ (per cap$_j$)				-1.734	-3.998	-3.766
				(4.208)	(3.974)	(3.276)
FRA Migrants$_j$ (per cap$_j$)				7.567*	6.917$^+$	3.473
				(3.488)	(3.548)	(3.523)
G5 Alliance	0.178$^+$	0.161$^+$	0.152$^+$	0.228*	0.177$^+$	0.167$^+$
	(0.095)	(0.091)	(0.081)	(0.098)	(0.096)	(0.086)
Polity	-0.011	-0.011$^+$	-0.010	-0.011	-0.010	-0.009
	(0.007)	(0.007)	(0.006)	(0.007)	(0.007)	(0.007)
Tot. Imports from G5 (log)	0.035	0.015	0.137**	0.048	0.027	0.142**
	(0.050)	(0.048)	(0.051)	(0.051)	(0.050)	(0.052)
Tot. Exports from G5 (log)	-0.059$^+$	-0.061$^+$	-0.015	-0.062$^+$	-0.066$^+$	-0.021
	(0.034)	(0.035)	(0.032)	(0.034)	(0.035)	(0.033)
Total Conditions	0.011***	0.011***	0.011***	0.011***	0.011***	0.011***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
GDP per Capita (log)	-0.043			-0.065		
	(0.048)			(0.050)		
GDP Growth		-0.165			-0.026	
		(0.406)			(0.409)	
GDP (log)			-0.202***			-0.192***
			(0.046)			(0.045)
Year Fixed Effects	✓	✓	✓	✓	✓	✓
Observations	658	647	648	658	647	648

Note: The dependent variable is the count of fiscal conditions for a given IMF program. Standard errors are clustered on country and are shown in parentheses. ***, **, *, and $^+$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively.

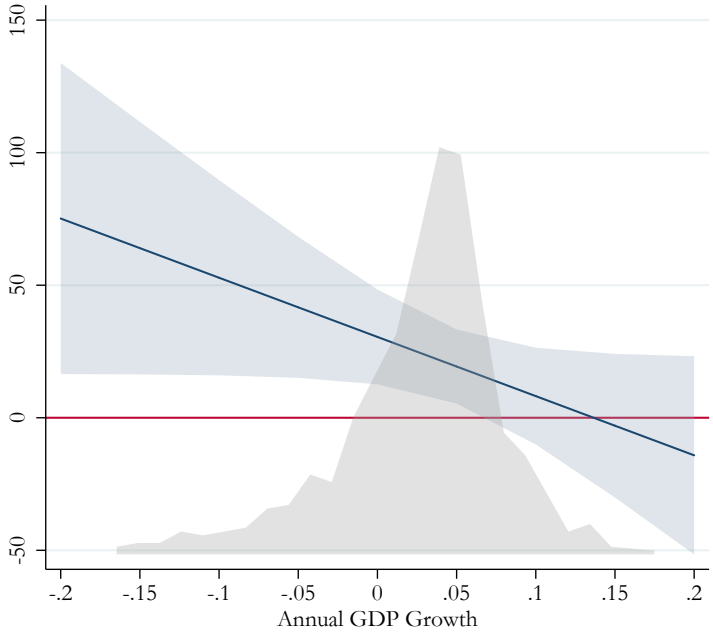
Table D.6: G5 Migration and IMF Program Waivers

	(A20)	(A21)	(A22)	(A23)	(A24)	(A25)
G5 Migrants$_{j,i}$ (per capita$_j$)	-3.722	1.701	-2.699			
	(13.876)	(16.646)	(17.047)			
US Migrants$_j$ (per capita$_j$)				-7.559**	-8.185**	-9.103**
				(2.315)	(3.009)	(3.032)
UK Migrants$_j$ (per capita$_j$)				27.838***	26.845***	27.002***
				(5.268)	(5.490)	(5.478)
JPN Migrants$_j$ (per capita$_j$)				-28.975	-15.530	-32.349
				(29.275)	(30.379)	(29.017)
GER Migrants$_j$ (per capita$_j$)				-2.786	3.180	3.262
				(6.536)	(5.729)	(6.308)
FRA Migrants$_j$ (per capita$_j$)				6.068	9.631	8.113
				(6.646)	(6.682)	(6.757)
G5 Alliance	0.218	0.289	0.286	0.311	0.450*	0.446*
	(0.183)	(0.180)	(0.180)	(0.206)	(0.191)	(0.190)
Polity	-0.005	-0.007	-0.002	-0.009	-0.012	-0.007
	(0.010)	(0.010)	(0.010)	(0.011)	(0.010)	(0.010)
Total Imports from G5 (log)	0.097	0.204**	0.190+	0.091	0.187*	0.177+
	(0.077)	(0.077)	(0.098)	(0.078)	(0.079)	(0.101)
Total Exports from G5 (log)	-0.031	-0.070	-0.057	-0.022	-0.062	-0.048
	(0.069)	(0.065)	(0.070)	(0.070)	(0.067)	(0.071)
Total Number of Conditions	0.018***	0.019***	0.018***	0.017***	0.018***	0.018***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
GDP per Capita (log)	0.150+			0.153		
	(0.087)			(0.098)		
GDP Growth		-3.148**			-3.113**	
		(1.149)			(1.152)	
GDP (log)			-0.005			-0.009
			(0.090)			(0.090)
Year Fixed Effects	✓	✓	✓	✓	✓	✓
Observations	586	577	578	586	577	578

Note: The dependent variable is the count of waivers for a given IMF program. Standard errors are clustered on country and are shown in parentheses. ***, **, *, and + indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively.

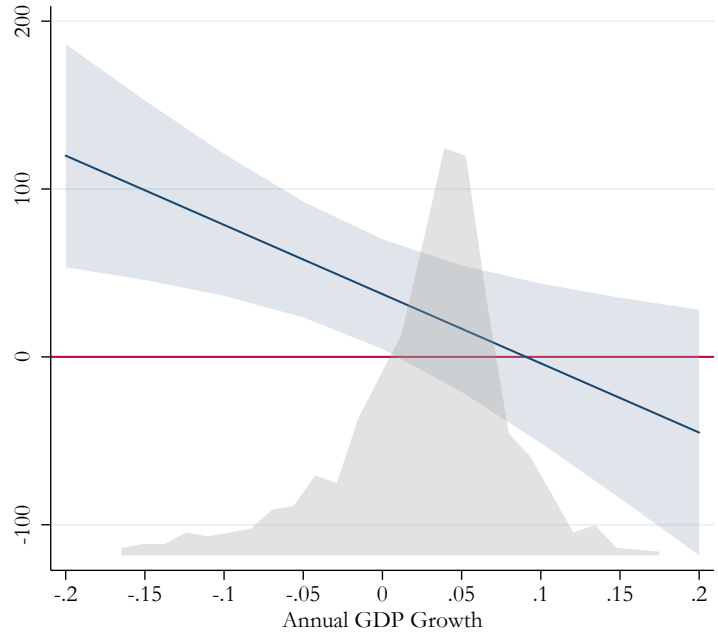
Additional Figures

Figure D.1: Marginal Effect of Migrant Stocks Conditional on GDP Growth (UK)



Note: The blue area denotes 95% confidence intervals.

Figure D.2: Marginal Effect of G5 Migrant Stocks (Model A4)



Note: The blue area denotes 95% confidence intervals.

IMF Programs and Emigration

An assumption of our main argument is that stricter IMF lending—whether in the form of smaller loans, more stringent conditions, or less policy flexibility—is likely to increase the flow of emigration out of the recipient country. More accurately, it is only important that G5 policymakers *believe* this dynamic is at play. Nevertheless, we explore in this section whether IMF lending exhibits an observable effect on emigration rates in borrowing countries.

IMF lending and emigration rates may associate with each other for two different reasons. Most straightforward, IMF programs can induce negative short-term economic effects, such as a rise in unemployment and reduced public spending, which encourage workers to seek better economic opportunities abroad. The opposite may be true of generous IMF programs with more flexible approaches to policy conditionality. However, IMF programs can also signal to workers their job opportunities and socioeconomic welfare will diminish (or increase) in the future. In this sense, IMF programs can shape the *beliefs* of individuals, which may alter how they perceive the opportunity costs (and potential benefits) of migration. If this is true, the effects of IMF lending on emigration will exist independently of the macroeconomic conditions within the borrowing country.

As a first cut empirical test of this relationship, we use country-year emigration data from Brücker et al. (2013), which contains the rate of low-skill emigration to OECD countries at five-year intervals between 1985 and 2010. The advantage of this data is that it allows us to detect flows specifically to advanced industrial democracies, while also measuring the movement of *low-skill* migrants who are typically most vulnerable to cuts in public spending and other forms of austerity. Our sample comprises a total of 111 IMF recipient countries. Because we only observe emigration rates every five years (e.g., 1980, 1985, etc.), we take the preceding five-year average of all independent variables. For example, for an observation in

the year 1985, we take the average GDP per capita from 1980 to 1984 to proxy for a country's economic development. The structure of the data prohibits us from making any strong claims on the relationship between IMF lending and immigration. Accordingly, the results are intended to be only suggestive.

Table D.7: IMF Lending and Emigration in Borrowing Countries

	(A26)	(A27)	(A28)
Low Skill Emigration $(\log)_{t-1}$	0.965***	0.862***	0.863***
	(0.114)	(0.083)	(0.083)
Loan Size per Capita$_j$ (log)	0.000	-0.005$^+$	-0.005$^+$
	(0.002)	(0.003)	(0.003)
Labor Conditions	0.095	0.031	0.038
	(0.065)	(0.067)	(0.067)
Conditions Waived	-0.032*	-0.033*	-0.040*
	(0.015)	(0.015)	(0.018)
GDP per Capita		0.000*	0.000*
		(0.000)	(0.000)
Polity		0.000	0.000
		(0.000)	(0.000)
Population (log)		-0.003	-0.002
		(0.002)	(0.002)
GDP Growth			0.000
			(0.000)
Year Fixed Effects	✓	✓	✓
Observations	377	362	358
R^2	0.732	0.740	0.741

Note: The dependent variable is the rate of low-skill emigration at time t. Standard errors are clustered on country and are shown in parentheses. ***, **, *, and $^+$ indicate statistical significance levels of .1, 1, 5, and 10 percent, respectively.

Model (A26) regresses a country's rate of low-skill emigration on three variables of interest: (1) a country's total loan size per capita (log); (2) the amount of labor conditions imposed (as a percentage of total IMF conditions imposed); and (3) the percentage of conditions formally waived by the IMF. To establish causal priority, these variables are used to estimate the next *observed* emigration rate. For instance, a country that receives a loan in 2002 is attached its respective emigration rate in 2005.[1] We also include year fixed effects and a lagged value of the dependent variable, which is a country's rate of low-skill emigration at $t-5$. According to

[1]If a country experiences multiple IMF programs within a given five-year interval, we simply treat this as one observation by taking the mean loan size and calculating the percentage of labor conditions and waivers as a total of all policy conditions across all IMF programs.

our theory, we predict labor conditionality to be associated with higher rates of emigration, while larger loans and more condition waivers should be negatively associated with lower rates of emigration.

As shown in Table D.7, the coefficients on Labor Conditions and Conditions Waived are in the predicted direction. However, only the percentage of condition waivers is statistically significant at conventional levels. Among IMF recipients, a greater percentage of program waivers is associated with lower rates of low-skill emigration to OECD countries. Loan Size per Capita (log) is statistically insignificant. Model (A27) introduces a series of controls, including GDP per Capita, Polity, and Population (log). Conditions Waived is again statistically significant at the 0.05 level and in the predicted negative direction. Here too, Loan Size per Capita (log) is negative and statistically significant at the 0.10 level. Thus, there is some evidence that larger IMF loans are associated with lower rates of emigration.

To explore whether IMF programs affect emigration through tangible economic effects or signaling effects as described above, we next include a control for annual GDP growth in Model (A28). Relative to Model (A27), the estimates for Loan Size per Capita (log) and Conditions Waived are virtually unchanged. This tentatively suggests that IMF programs affect emigration by signaling information about future policy changes to workers in recipient countries.

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